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**Interim Economic Impact
Assessment of ASDG I
July 15, 1988 - Niamey, Niger**



CENTER FOR RESEARCH ON ECONOMIC DEVELOPMENT
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A report submitted to the USAID mission in Niger
by the University of Michigan Technical Assistance Team
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Niamey, Niger

**Interim Economic Impact
Assessment of ASDG I
July 15, 1988**

Prepared for

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FOREWORD

This report presents the current status of the University of Michigan team's preliminary assessment of the economic impact of ASDG, it is also submitted as a contribution to upcoming identification work for Phase II of the grant.

This exercise was started as a response to concern on the part of AID/W and at the AID mission to Niger that the impact of the grant be identified and, to the extent possible, quantified.

Our purpose was to:

- establish a basic methodology for grant impact assessment in various economic areas, and for various groups concerned;
- test this methodology with existing data. Through this process, refine the approach and ascertain whether data available or currently collected are sufficient for this type of exercise;
- provide a preliminary assessment of ASDG impact useful to upcoming design efforts for ASDG II, and a better frame of reference for the final evaluation of the first phase.

Because of the overwhelming effect of multiple and complex exogenous factors, the overall approach is obviously not based on a simple before/after comparison. Key benchmark indicators have been selected and followed over time, but they are more useful to track actual implementation than for measuring net final effects. Exogenous factors are directly integrated into the analysis only to the extent that they modified actual implementation in a major sense.

The impact assessment follows these general steps: (a) a description of the original policy rationale, in some cases with substantial further development, (b) an overview of actual implementation in counterpart fund use or policy reform, (c) an assessment of the macroeconomic and budgetary impacts, and (d) in the case of policy reforms, an assessment of net effects by main social group concerned.

This report comprises 5 sections: macroeconomic and budgetary impact of the various tranches of financing, impact by major policy reform area: cereals marketing, inputs, role of cooperatives, and conclusions. A section on cross-border trade will be included in later versions of this report.

We gratefully acknowledge the very valuable contributions of Larry Herman and Charles Steedman, consultants, and of Cynthia Moore, researcher.

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LIST OF ABBREVIATIONS AND ACRONYMS

ADB	African Development Bank
ADF	African Development Fund
APS	Agricultural Production Support Project
ASDG	Agricultural Sector Development Grant
BADEA	Banque Arabe de Développement des Etats Africains
B.I.	Budget d'Investissement
BOAD	Banque Ouest Africaine de Développement
CA	Centrale d'Approvisionnement
CCCE	Caisse Centrale de Coopération Economique (France)
CIDA	Canadian International Development Agency
FAC	Fonds d'Aide et de Coopération (France)
FAO	Food and Agriculture Organization of the United Nations
FED	Fonds Européen de Développement (EEC)
FLUPP	Forestry and Land Use Planning Project
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
IDA	International Development Agency (World Bank)
IDB	Islamic Development Bank
IFAD	International Fund for Agricultural Development
ILO	International Labor Organisation
ILP	Integrated Livestock Project
INRAN	Institut National de Recherches Agronomiques du Niger
KfW	Kreditanstalt für Wiederaufbau
LC	Local currency
NDD	Niamey Department Development Project
OPEC	Organisation of Petroleum Exporting Countries
OPVN	Office des Produits Vivriers du Niger
PCN	Projet Céréaliier National
RSDG	Rural Sector Development Grant
RD	Rural development
UNDP	United Nations Development Programme
UNEP	United Nations Equipment Programme
UNSO	United Nations Sahelian Office
WFP	World Food Programme

MACROECONOMIC AND BUDGETARY EFFECTS

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I. INTRODUCTION

The Agricultural Sector Development Grant (ASDG) involves both a sector-targeted resource transfer and incentives for the Government of Niger (GON) to undertake a series of policy reforms. The resource transfer, which has amounted to \$29 million in three increments or tranches, is designed to assist Niger's economic stabilization program. It does so by providing a mix of funds for incremental investment that could not otherwise be undertaken and for reducing balance of payments and government budget deficits. The resource transfer does one or the other as it is used. It cannot do both simultaneously.

The policy changes that are to be implemented are designed to help Niger meet its structural adjustment objectives over the long term. The aim is to move toward freer markets and trade and less government involvement in agricultural sector activities. The ASDG thus has an immediate impact on the balance of payments and public finance and a longer term impact on the structure and strength of the economy.

One of the first things that one notes in reading through ASDG project documents (ProAG, PAAD, CDSS) is the multiplicity of objectives and intended impacts. It is our opinion that these documents went too far in some cases and that ASDG was not capable of doing all that was promised.

We explain more fully in the following section the tradeoff between alleviating public finance and balance of payments deficits on the one hand and providing resources to finance incremental sectoral investment on the other. The grant agreement seems to argue for incremental activity, especially in light of section 5.3 B which stipulates that the Local Currency Account should not substitute for Nigerien budgetary resources. Such a provision is almost certainly impossible to enforce and difficult to monitor. It is not even clear that such a stipulation is advisable. In practice it appears that about 40 percent of the activity financed to date by the grant would have taken place anyway, which leads us to the conclusion that the grant has in the end had both types of stabilization impacts.

On the structural adjustment side the main instrument was the set of policy reforms. We are convinced that the fundamental orientation of the reforms was appropriate, though flaws in both formulation and implementation have diminished their potential impact in the short and medium terms. Further, since policy reforms are greatly influenced by the general economic environment, their impact is highly dependent upon exogenous factors and the removal of other constraints (e.g., credit, technical/extension, institutional capacity). Policy reforms are necessary but not sufficient conditions to achieving many of the structural adjustments foreseen by ASDG.

A variety of other objectives were advanced, somewhat vaguely, for ASDG. For example, Local Currency Account expenditures were supposed to have raised the level of the agricultural sector's absorptive capacity. Failure to fully implement investment plans was taken as a sign that capacity was lacking rather than as a symptom of overly ambitious investment planning. We wonder just what is meant by absorptive capacity in this context and do not believe that vague claims of this nature are helpful. We believe it is important to understand what ASDG can do and can-

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not do. The sections below are designed to assist the reader's comprehension of the Sector Grant's potential and actual performance to date.

We also have concerns about the expectations that ASDG could improve resource allocation among agricultural sector development activities (Investment Budget). The relationship of the Local Currency Account to the Investment Budget is complex; decision making on Local Currency Account allocations is the subject of a special system that is appended to but not fully integrated into the planning process. We are concerned that placement of some ASDG counterpart fund allocations outside normal channels weakens the impact on resource allocation and forfeits an opportunity to strengthen the planning process.

Finally there is the oft mentioned issue of consolidation of sectoral investment. We interpret this to mean that ASDG was to strengthen existing development activities rather than start new ones. Indeed, the PAAD speaks of the need to weigh the value of supporting ongoing projects against the economic benefits of financing new projects. There is little evidence that there was ever an opportunity to make such comparisons. We have serious reservations about how such decisions can be effectively made outside the context of overall Investment Budget and current expenditure budget allocations.

In the end, ASDG could and did contribute to economic stabilization. It provided some general budgetary and balance of payments support both through lags in disbursements and through fungibility of government funds. The resource transfer financed continuation of some development activities that otherwise might have been cut as well as some new investments that could not otherwise have been made.

ASDG also represents an important step in implementing the policies which will ultimately support structural adjustment, though few clear manifestations of impacts are evident yet, as we see in sections of this report covering policy reform areas. Still, these accomplishments and the lessons learned are in themselves impressive enough to consider ASDG favorably. We are much more doubtful about ASDG's impact in increasing absorptive capacity, improving resource allocation, and consolidating investments. As a result, in our concluding section we caution against making too many claims for future programs such as this.

II. OVERVIEW OF STABILIZATION IMPACT: DOLLAR TRANSFER AND LOCAL CURRENCY ACCOUNT

The potential benefits of the Grant consist, first, of a dollar transfer to the BCEAO in favor of the GON. This acts as a short-term capital flow. It improves Niger's balance-of-payments (BOP) by the amount of the transfer and adds to its foreign exchange reserves. The BOP impact is positive and instantaneous but it will be diminished over time as secondary effects work their way through the economy. Some of these effects are discussed below.

The potential benefits to Niger's public finances begin to occur once the BCEAO transfers an equivalent amount in CFAF to an interest-bearing GON Treasury account in Niamey. The Minister of Finance has delegated to the Minister of Plan the authority to make payments for approved projects out of this LC account. Under

the Minister's authority, the Secretariat of the ASDG Management Committee, chaired by Plan's Director of Investment Finance, manages the LC account.

As each tranche is deposited in the account, five percent is moved into a separate LC Trust Fund account for use by USAID (Amendment 4 to the Grant Agreement raised the percentage to 8 percent and required that this amount be deposited directly into the Trust Fund account without). We do not deal here with the potential impact of the amount that is transferred to the Trust Fund.

The deposit of CFAF in GON accounts is equivalent to a one-time increase in government revenues. To the extent that these funds are not committed by the end of the fiscal year, September 30, there will be a reduction in the GON budget deficit for the year by the uncommitted amount. The reduction in the deficit will be even greater if commitments from the LC account allow a reduction in commitments from other government accounts.

As later tranches are deposited, similar reductions in the budget deficit will occur annually. After the final tranche has been deposited, however, the deficit will be increased in one or more fiscal years unless there is a fully compensating compression of government outlays elsewhere. In other words:

To the extent that expenditures from the LC account are new expenditures that would not have occurred without the ASDG, they will have no beneficial impact on the GON's public finances. To the extent that expenditures from the LC account would have been made anyway from other government accounts, there will be a reduction in the cumulative budget deficit from what it would otherwise have been.

Overall, the net present value of the reductions in the budget deficit will be greater than the NPV of the increases both because reductions will occur in the early years and because of reduced outlays from other government accounts.

To the extent that incremental expenditures from the LC account have multiplier effects on the economy, they will generate some level of additional government revenue. To the extent that incremental expenditures from the LC account induce the production of crops and other goods sold on government account, there will be additional government revenue.

To the extent that incremental projects or incremental components of projects survive and rely on government resources after the LC account has been closed, their recurrent costs will add to government expenditures. If not offset by project revenues, these expenditures will increase the budget deficit. The interest earned on the LC account will add to government revenue and reduce the budget deficit.

As expenditures are made from the LC account, and they work their way through the economy, there will be secondary effects on the balance of payments, as suggested above. For example, to the extent that the LC account is

used to purchase imported goods and services that would have been purchased anyway, there is no reduction of the favorable impact of the dollar grant on the BOP. However, to the extent that it is used to purchase imported goods and services that would not otherwise have been purchased, there will be an offsetting reduction of the favorable impact of the dollar grant on the BOP.

To the extent that expenditures from the LC account induce increases in the production and export of goods that would not otherwise have occurred, there will be a further reduction in the BOP deficit.

On the other hand, to the extent that incremental expenditures from the LC account have multiplier effects on the economy, there will be an increase in the BOP deficit equivalent to the marginal propensity to import. To the extent that incremental projects continue to generate recurrent costs after the LC account has been closed, a portion of them will be imports and will increase the BOP deficit in later years.

In sum, the potential benefits of the dollar grant on Niger's international accounts and of the local currency account on its public finances can be substantial, but they can be offset in a number of ways. The balance-of-payments benefits can be seriously undermined, for example, if there are large incremental imports. Similarly, incremental expenditures from the LC account counteract the initial public finance benefits. The question then becomes one of knowing what these imports and expenditures have generated.

To determine the net impact of the ASDG, an attempt should be made to estimate the value of incremental expenditures and of incremental imports since these will counteract the initial positive impact of the grant. The net benefit may then expand or contract over time as expenditures are made and as incremental activities succeed, or conversely fail, in generating more exports and greater government revenues. While the ASDG Management Committee Secretariat's data on expenditures to date, examined in detail below, is quite good and timely by most standards, there are gaps to be filled and refinements to be made before a definitive assessment can be made.

III. PRELIMINARY ASSESSMENT OF LOCAL CURRENCY ACCOUNT IMPACT

The ASDG local currency (LC) account, or counterpart fund, came into existence with the deposit of the first tranche in March 1985. A similar account for the Rural Sector Development Grant (RSDG), administered in similar fashion by the ASDG Management Committee's Secretariat, had already been in existence since 1984. There seems to have been little difference between the two. For the ASDG, project selection priorities were changed only in the sense that funding recurrent costs of USAID projects in agriculture and livestock took second place to financing activities that contributed to the implementation of policy reform. The primacy of the latter does not, on the evidence, appear to have been respected. The consideration of projects for funding from the LC account has turned more on the state of readiness of the requests and the ASDG Management Committee's judgment of their viability.

Pressures are created by the very existence of the LC account. The Director of Budget Finance, who chairs the Management Committee, comments that the LC account is seen as being more readily available than most alternative sources of funding for projects. His committee attempts to judge new proposals on their merits, but since proposals are submitted serially, there is little opportunity to compare one possible use of the account with another. For the first three tranches of the ASDG, there was little attempt to apply cost-benefit or cost-effectiveness criteria to the selection of projects to be funded. This changed before the departure of Jeffrey Metzler of the technical assistance team, who with colleagues in the Ministry of Plan's DEPP, became more involved with LC account projects and began to analyze proposals to the committee. We expected that this kind of scrutiny will continue and be reinforced through Dr. Gonzalo Romero, now assigned to the Ministry of Plan's DEPP.

It is difficult to say that the existence of the LC account has improved the planning process for the investment of GON funds, as the designers of ASDG seem to have hoped. Nonetheless, the process was definitely improved after the World Bank's Structural Adjustment Program was introduced. It was recognized at the time that the GON had little data on donor-funded projects and little basis for tracking or comparing them. The introduction of the Investment Budget (B.I.) itself in 1984 was a big step forward, and the development of the Dossier Standard for projects with help from Metzler and others added to the government's ability to compare and measure projects.

Table 1. Details of Transfers to the LC Account

	1st Tranche	2nd Tranche	3rd Tranche
Date of CFAF Deposit	3 March 1985	2 Jan 1986	1 Aug 1987
Dollar Amount	\$7,000,000	\$9,500,000	\$12,500,000
CFAF Equivalent ('000)	3,323,250	3,544,925	3,800,000
Less 5% for Trust Fund	166,163	177,805	190,000
Net to LC Account	3,157,087	3,367,120	3,610,000
Interest through 3/88	121,588	256,430	110,641
Total Available ('000)	3,278,675	3,623,550	3,720,641
Three Tranche Total			10,622,866
Total Dollar Transfer			\$29,000,000
SOURCE: Secrétariat du Comité de Gestion			

In order to examine the possible impact of the ASDG resource transfer on the Nigerien economy, we need to see what amounts are involved and how they have been spent. The dates of the three ASDG transfers to the LC account, the dollar and CFAF amounts, and the interest earned by the account are shown in Table 1.

The LC account has been used for a variety of purposes. Table 2 separates the projects it supports into six groups including one for the operation of the Secretariat. Looking at the groups in turn may provide some insight into the way in which expenditures have been concentrated and the extent to which the account has financed any incremental activity.

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Table 2. Categories and Status of LC Account Projects,
31 May 1988

(In millions of CFAF)

LCA No.	Project Title	Amount Auth.	Amount Released	Amount Spent
A. Counterpart for USAID Projects				
2	Niamey Department Development	897	897	767
3	Forestry/Land Use Planning	1,257	1,257	985
30	PCN Recurrent Costs	232	232	160
		-----	-----	-----
	Sub-total	2,386	2,386	1,912
	Percentage of Total	27.5	28.6	31.0
B. Counterpart for Other Donor Projects				
8	RD Operations Support (1986 BI	353	353	221
10	RD Operations Support (1988 BI	466	466	198
21	Ag Market/Price Policy Study	8	7	7
28	Dembou Perimeter Development	230	230	0
		-----	-----	-----
	Sub-total	1,057	1,056	426
	Percentage of Total	12.2	12.7	6.9
C. Solely Funded New Projects				
6	Firgoum Perimeter Development	27	27	27
16	Nigerien Enterprises-ILO	1,067	1,067	951
12	CARE Agroforestry	214	214	80
13	Africare Fish Ponds	49	49	43
26	Firgoum Perim. South Study	27	4	4
33	Maradi Employment Creation	251	251	0
34	Hydrogeological Study	12	12	5
		-----	-----	-----
	Sub-total	1,647	1,624	1,110
	Percentage of Total	19.0	19.5	18.0

(In millions of CFAF)

LCA No.	Project Title	Amount Author.	Amount Released	Amount Spent
D. New Components of USAID Projects				
4	Soils Laboratory-INRAN	87	87	9
15	Livestock Renewal (ILP)	100	100	100
18	Wheat/Cowpea Seed (APS)	131	131	131
19	Improved Seed (APS)	805	805	805
20	Fertilizer Imports (APS)	272	272	272
23	Guarantee Fund (APS)	357	357	0
24	Cowpea Renewal (APS)	270	268	268
25	Peanut Renewal (APS)	500	499	499
31	CB-5 Cowpea Seed (APS)	530	359	359
		-----	-----	-----
	Sub-total	3,052	2,878	2,443
	Percentage of Total	35.1	34.5	39.6
E. Fonex/LC Costs of Other Donor Projects				
17	Crop Protection	180	137	137
27	Rural Code Drafting	170	53	53
32	Village Poultry-CCCE	43	43	(b)
		-----	-----	-----
	Sub-total	393	233	190
	Percentage of Total	4.5	2.8	3.1
F. Secretariat Operations				
		157	157	84
	Percentage of Total	1.8	1.9	1.4
		-----	-----	-----
	TOTAL	8,691	8,332	6,165
	Percentage of Total	100.0	100.0	100.0

(a) Totals may not add because of rounding

(b) Less than 500,000 CFAF

SOURCE: Secrétariat du Comité de Gestion

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Table 3. LC Account Project Expenditures as of 30 April 1988 (a)

(In millions of CFAF)

LCR No.	Project Title	Pers'l	Train'g	Oper. Expen.	Equip.	Inputs (b)	Constr.	Studies	Other (c)	Advance (d)	Total
2	Niamey Dept. Development	0	0	0	0	0	0	0	724	0	724
3	Forestry/Land Use Plan	161	0	106	74	0	49	0	10	0	400
4	Soils Laboratory-INRAN	0	0	1	0	0	0	0	3	0	4
6	Firgoum Perimeter Dev.	0	0	0	0	0	27	0	0	0	27
8	RD Operations Support	0	0	0	0	0	0	0	0	0	221
9	Secretariat	36	3	24	3	0	0	5	0	0	71
10	RD Operations Support	0	0	0	0	0	0	0	124	30	124
12	CARE Agroforestry (e)										0
13	Africare Fish Ponds	7	2	7	14	0	7	0	7	0	43
15	Livestock Renewal (ILP)	3	0	2	0	94	0	0	1	0	100
16	Nigerien Enterprises-ILO	39	6	49	43	0	1	0	609	0	947
17	Crop Protection	13	0	69	55	0	0	0	0	0	137
18	Wheat/Coupea Seed (APS)	0	0	3	0	128	0	0	0	0	131
19	Improved Seed (APS) (e)										805
20	Fertilizer Imports (APS)	0	0	8	0	264	0	0	0	0	272
21	Ag Mkt/Price Policy Study	0	0	1	0	0	0	3	0	0	4
23	Guarantee Fund (APS)	0	0	0	0	0	0	0	0	0	0
24	Coupea Renewal (APS)	21	1	162	49	36	0	0	0	0	268
25	Peanut Renewal (APS)	0	0	1	0	498	0	0	0	0	499
26	Firgoum South Study	0	0	0	0	0	0	4	0	0	4
27	Rural Code Drafting	16	0	19	18	0	0	0	0	0	53
28	Dembou Perimeter Develop.	0	0	0	0	0	0	0	0	0	0
30	PCN Recurrent Costs	2	0	125	11	0	0	0	0	3	141
31	CB-5 Coupea Seed (APS)	0	0	44	2	0	0	0	0	309	355
32	Village Poultry-CCCE	0	0	0	0	0	0	0	0	0	0
33	Maradi Employment Creation	0	0	0	0	0	0	0	0	0	0
34	Hydrogeological Study	3	0	1	0	0	0	1	0	0	5
		301	12	622	269	1,020	84	13	1,678	342	5,335
Percent of Total		5.6	0.2	11.7	5.0	19.1	1.6	0.2	31.5	6.4	81.4

(a) Totals may not add because of rounding.

(b) Input expenditures as follows:

Livestock Renewal (ILP): Livestock
 Wheat/Coupea Seed (APS): Wheat (102), Coupea (26) seed
 Fertilizer Imports (APS): Fertilizer
 Coupea Renewal (APS): Fertilizer
 Peanut Renewal (APS): Peanut seed

(c) "Other" expenditures as follows:

Niamey Dept. Development: Field operations
 Nigerien Enterprises-ILO: Guarantee Fund (150), ILO (609), Frais d'agence (48)

(d) Advances not yet accounted for

(e) No breakdown available

SOURCE: Secretariat du Comité de Gestion

Table 3, which is incomplete, attempts to provide a breakdown of each project's expenditures (through April 1988) by major category: personnel, operating expenses, equipment purchases, and so on. This table allows us a preliminary look at types of expenditure for all 26 projects taken together. More detailed data of this sort will be needed in order to determine the extent to which LC account expenditures have gone for imports as opposed to local goods and services.

Returning to Table 2, one finds in the first group (A) contributions to three major USAID projects that have been made in lieu of GON counterpart contributions. These payments have taken up a large but declining portion of LC disbursements. As shown in Table 2, they account for 31 percent of the ASDG LC Account expenditures through May 1988.

In the case of the Niamey Department Development Project (12 percent of total disbursements) expenditures have been directed toward field operations. A breakdown by category was not immediately available. The Forestry and Land Use Planning Project (FLUPP), which has received 16 percent of the total, has used the LC account for personnel, routine operating costs, vehicles, equipment and construction. A better-than-average proportion of its LC account expenditures -- 14 percent -- have been for investment purposes. As a consequence of its investment in vehicles and equipment and heavy expenditure on fuel for vehicles, the FLUPP project is considered to have used the LC account more for imports than have most other projects.

The Agricultural Production Support Project (APS) has used considerably less of the LC account for counterpart expenses, only 3 percent, concentrating these expenditures (89 percent) on routine operating costs, particularly vehicle operation and maintenance. As will be seen below, however, the LC account has financed a number of new components of the APS project so that it has actually benefitted more than either NDD or FLUPP.

A second group shown in Table 2 is counterpart for other donor projects (group B). The other donors range from the World Bank and UN agencies to Kuwait. The first ASDG tranche contained 353 million CFAF for a set of 28 rural development (RD) projects, which also benefitted from the Rural Sector Development Grant, ASDG's \$5 million predecessor. As shown in Table 3, no breakdown of the disbursements by category was available as this was written.

Another set of 17 rural development projects was funded under the third tranche. In this instance they were each identified in the 1988 Investment Budget (B.I.) as receiving sums from the ASDG in lieu of GON Treasury counterpart contributions. Table 4 contains a list of the 17 projects, showing how much the LC account agreed to contribute and how much the donor intended to commit to each one in the 1988 fiscal year. The LC account counterpart is 7 percent and donor contributions are 93 percent of the 1988 total.

The fact that the amounts coming from the LC account are in lieu of GON contributions from the Treasury is clearly shown in Table 5, which lists the same projects and reveals the planned levels of GON Treasury contribution to each one from 1986 to 1989. For 1988 the amount is nil. At 490 million CFAF, the planned Treasury amount for the previous year, 1987, was very close to the

Table 4. LC Account Contributions to Other Donor Projects, 1988

(In millions of CFAF)

S.I. No.	B.I. Title	1988 LCA	1988 Donor(s)	Donor(s) Name(s)
1004	Tahoua Productivity Project	23	325	GTZ
3002	Small RD Operations	8	191	IDA
3012	N'Guigmi Integrated Developm't	5	256	UNDP/UNEP
3026	Elmeki Irrigation Development	15	150	Kuwait
4023	Kourani Baria Perimeter	92	742	ADB/ADF
4071	Perimeter Rehabilitation	45	2,704	KfW/IDA/CCCE
111 Sub-Total Agriculture		187	4,368	
1009	Emergency Vaccination Campaign	46	0	-
2001	Center-East Niger Project	15	684	IDA
2016	Dallol Bosso Ag-sylvo-pastoral	3	275	CIDA
5001	Dembou Dairy Perimeter	18	279	BOAD/OPEC
112 Sub-Total Livestock		82	1,238	
1002	Gao Dosso Project	13	52	UNSO/FAC/CCCE
1003	Borehole Plantations	15	35	Switzerland
1004	Tahoua Greenbelt	15	0	UNSO
1005	Niamey Greenbelt Extension	17	29	UNSO
1006	Bilma Palm Sand Barrier	2	98	UNSO
4021	Fisheries Development	15	0	UNDP
113 Sub-Total Forestry/Fisheries		77	214	
2009	500 Water Points	120	451	Kuwait/BADEA
Sub-Total Village Water Supply		120	451	
TOTAL		466	6,271	
Percentage Agriculture		40.1	69.7	
Percentage Livestock		17.6	19.7	
Percentage Forestry/Fisheries		16.5	3.4	
Percentage Village Water		25.8	7.2	
Total		100.0	100.0	

(a) Totals may not add because of rounding.

SOURCE: Ministere du Plan, "Programme des Investissements de l'Etat 1988-1990 et Budget d'Investissement 1988." Septembre 1987.

Table 5. Treasury Budget for Selected Projects, 1986-1989

(In millions of CFAF)

B.I. Title	1986 Planned	1987 Planned	1988 Planned	1989 Planned
Tahoua Productivity Project	23	0	0	0
Small RD Operations	0	0	0	0
N'Guigmi Integrated Developm't	8	0	0	5
Elmeki Irrigation Development	0	0	0	0
Kourani Baria Perimeter	80	175	0	0
Perimeter Rehabilitation	55	78	0	20
Sub-Total Agriculture	166	253	0	25
Emergency Vaccination Campaign	0	38	0	0
Center-East Niger Project	10	10	0	0
Dallol Bossou Ag-sylvo-pastoral	0	0	0	10
Dambou Dairy Perimeter	8	67	0	0
Sub-Total Livestock	18	116	0	10
Gao Dosso Project	11	16	0	0
Borehole Plantations	0	15	0	0
Tahoua Greenbelt	0	0	0	0
Niamey Greenbelt Extension	0	20	0	0
Bilma Palm Sand Barrier	0	0	0	0
Fisheries Development	0	0	0	0
Sub-Total Forestry/Fisheries	11	51	0	0
500 Water Points	60	70	0	0
Sub-Total Village Water	60	70	0	0
TOTAL	255	490	0	35
Percentage Agriculture	65.1	51.6	-	71.4
Percentage Livestock	7.1	23.7	-	28.6
Percentage Forestry/Fisheries	4.3	10.4	-	0.0
Percentage Village Water	23.5	14.3	-	0.0
Total	100.0	100.0	-	100.0

SOURCE: Ministère du Plan, "Programme des Investissements de l'E 1988-1990 et Budget d'Investissement 1988." Septembre 1987

Table 6. Rural Development in the Investment Budget, 1985 - 1989

(In millions of CFAF)

	1985 Actual	1986 Actual	1987 Actual	1988 Planned	1989 Planned
Rural Development					
Agriculture	11,142	16,225	14,987	28,240	28,750
Livestock	2,212	2,695	3,212	5,277	8,050
Forestry	1,526	1,515	2,383	2,518	5,175
Micro-projects	0	435	183	2,219	2,300
RD Sub-Total	14,881	20,869	20,766	38,254	44,275
B.I. Total	52,541	61,490	59,994	103,338	115,000
RD Percent of Total	28	34	35	37	39

GON Treasury Contributions to the B.I.

	1985 Actual	1986 Actual	1987 Actual	1988 Planned	1989 Planned
Rural Development					
Agriculture	747	282	774	348	
Livestock	182	57	184	52	
Forestry	40	34	204	13	
Micro-projects	0	0	56	0	
RD Sub-Total	969	373	1,218	413	
Treasury Total	5,313	3,812	4,812	6,650	7,116
RD Percent of Total	18	10	25	6	

(a) Figures for 1985, 1986 and 1987 do not agree with totals found in Table 5 even though derived from the same documents. The figures above were taken from summary tables on pages 36, 45 and 69 of the source documents for 1985, 1986 and 1987, respectively.

SOURCE: Ministère du Plan, Direction du Financement des Investissements. "Etat d'Execution du Budget d'Investissement, Gestion

466 million CFAF in disbursements from the LC account intended for 1988.

The fungibility of Treasury contributions to the B.I. is also revealed in this instance. We learned that the Ministry of Finance set a cap on the GON contribution to the 1988 B.I. at 6,650 million CFAF, which fell about 600 million short of the minimum figured reached after hard bargaining between the Ministry of Plan and the technical ministries concerned. The ASDG LC account was a ready source for about three-quarters of the shortfall, but since it was reserved for rural development activities, all the projects to be financed had to be in that sector.

This clearly liberated some intended counterpart funding for other projects in other sectors. That it did so is shown in Table 6, which reveals that the rural development portion of the GON Treasury's contribution to the B.I. was expected to fall by two-thirds in absolute terms and from 25 percent to 6 percent in percentage between 1987 and 1988. The decline in the amount and percentage given to rural development from 1985 to 1986, when the first tranche was used, indicates that the same thing happened in that year as well.

At first look, it would be difficult to maintain that the funds given to the projects in groups A and B of Table 2 are financing any incremental activity since these were all on-going donor-assisted projects for which GON counterpart was lacking. It is possible, however, that the availability of the LC account allowed the creation in other sectors or even in the rural sector of new projects that would not otherwise have begun. Given almost complete fungibility, there is no way of knowing. This might have happened in 1986. Table 6 clearly shows a faltering of Treasury contributions to the B.I. as a whole in 1986 compared to 1985. In the later year a constraint was evident. In the absence of the LC account, the GON might have been obliged to postpone some new starts. The existence of the account may have allowed it to avoid the choice and make the starts anyway. There is really no way to tell.

For convenience's sake, we will assume that groups A and B, making up 38 percent of disbursements, represent no incremental activity and therefore detracted in no way from the beneficial effect of the resource transfer on Niger's public finances.

Returning to Table 2, we find that 18 percent of disbursements have gone to what may be called solely funded new projects. Two of these projects are in fact small studies. Two other are being implemented by NGOs, as indicated in the table. The dominant project by far is the so-called OPEN/BIT project, an effort to promote small private enterprise that is being implemented by the ILO. As seen in the notes to Table 3, over 600 million CFAF is shown in the accounts of the Secretariat as going to the ILO.

None of these projects appears in the Investment Budget, being subsumed under the line item for the ASDG. We may assume that these projects would not exist without the LC account and therefore that they represent incremental activity. In their case, the ASDG is funding new activity, not relieving budget and balance of payments constraints.

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Almost 40 percent of LC account disbursements have gone to new components of USAID projects. The activities are found in group D in Table 2.

The amounts authorized and expended for the first project in group D -- the INRAN soils laboratory -- should be examined with care. This project, along with NDD, the Firgoum perimeter and the first RD operations support project, all received LC account funding from the Rural Sector Development Grant as well as the ASDG. These two sources are sometimes combined in Secretariat reports. For our purposes here, we are concerned only with the amounts coming from ASDG.

Group D includes one project, the guarantee fund, which is directly supporting the implementation of policy reform under ASDG. The fund is deposited in a commercial bank to guarantee loans to cooperatives. When a portion is set aside to guarantee a loan, it goes into another account in the same bank and earns interest at a lower rate, perhaps six rather than eight percent. Thus funds continue to accrue to the LC account. Except for cases of default, where the guarantee fund would be drawn upon, the only cost is the interest foregone.

The bulk of the disbursements under group D went to purchase livestock, fertilizer or seed, as shown in the notes to Table 3. The fertilizer purchase is certainly linked to the ASDG policy reforms since it was made with the intention of generating operating capital for the Centrale d'Approvisionnement (CA), the lack of which had condemned the organization to a precarious hand-to-mouth existence for years. Operating capital makes sense for the CA if it is to continue to play a role in input supply, and the policy reform in this domain did not exclude a smaller role for the CA in input distribution.

It may be advisable for the CA to continue to serve as a recipient of donor-provided fertilizer, as a subsidized fertilizer storage depot and as a wholesaler to private traders. Even so, it is supposed to be autonomous, freed from government control. Creation of the operating capital account required Ministry of Plan supervision. This seems to be a retrograde step. The CA, as an independent entity, whether nominally owned by the UNC or not, should manage its own account. Its governmental character and inability to operate on business lines were a severe handicap in the past. The channeling of the funds generated from the sale of fertilizer into a government account have not helped to cut the linkage.

The various seed procurement efforts are not directly related to policy reform, which aims to move the later stages of seed multiplication into private hands, leaving the government to inspect and certify seed but not to control prices. The seed procurement activities were oriented toward making seed available after the bad harvest of 1984. Aside from the saga of the imported CB-5 cowpea variety, which suffered severe stress and did not adapt well, the other efforts were focused on local procurement and have raised some questions about the role of Prefets who could choose whom they bought from and at what price. If anything, the one-time distribution of seed of varying quality and appropriateness may have undermined farmers' confidence in the government as a source of good seed. If so, this particular use of the LC account may have countered, rather than helped, policy reform.

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In any event, USAID is the best judge of whether these new components of on-going projects would have been initiated in the absence of the LC account. Funds might have been found elsewhere for livestock, seed and fertilizer procurement in the aftermath of the 1984 drought year but the LC account was used because it was readily available. We cannot determine if this was in fact the case. For convenience we consider all of these activities to be incremental, adding additional resources but not alleviating public finance and balance of payments difficulties.

The final group in Table 2 is group E, projects supported by other donors for which the LC account paid some foreign exchange and local currency costs. These expenditures were not in lieu of GON counterpart funding. A major expenditure for the crop protection project was procurement, operation and maintenance of crop dusting aircraft. We will assume that these were incremental activities. To the extent that imports were involved, there was no balance of payments relief.

In sum, we find that groups A and B appear to be non-incremental, while groups C, D and E seem to be incremental. The operation of the Secretariat (F) would be incremental as well. That divides expenditures as of 31 May 1988 as follows: 38 percent (2,343 million CFAF) non-incremental and 62 percent (3,822 million CFAF) incremental. Certainly these very rough estimations can be improved over the next few months as the first phase of ASDG is completed. At the same time, it would be worth making further examination of expenditure data to determine what percentages went to imports and to local procurement.

A final comment on table 2 would be that it reveals the very heavy dependence of USAID projects on the LC account for counterpart funding and for new components. Seventy percent of disbursements have gone for these purposes. The more dependent the USAID program, the heavier the pressure to release new tranches of the ASDG. This is without taking into consideration the mission's needs for the Trust Fund, generated by taking 8 percent from each new tranche. Nor does it take into account the pressures that may come from American NGOs who depend on the LC account for their projects. All of these interests will remain hostages to GON compliance with ASDG conditions, unless changes are made in the second phase.

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Table 7. Investment Budget (B.I.)
Actual RD Expenditures, 1985-1987

(In millions of CFAF)

LOANS	Donor	1985	1986	1987
Dosso Rural Development	IDA	-	189	-
Maradi Rural Development	IDA	877	602	468
Rural Development Project	IDA	585	-	-
Perimeter Rehabilitation	IDA	-	445	390
Small RD Operations	IDA	58	10	54
Ag. Sector Strategy Studies	IDA	-	-	15
Maradi Rural Dev. II	IFAD	-	428	251
Maradi Rural Development	CCCE	47	262	67
Rural Development Dosso	CCCE	185	77	-
Gaya Fruit Project	CCCE	13	176	-
Animal Traction	CCCE	-	3	-
Perimeter Rehabilitation	CCCE	-	180	875
Zinder Rural Development	CCCE	-	-	57
Kourani Baria Irrigation	ADB	471	1,870	736
Yelewani Irrigation	BOAD	27	40	-
Konni II Irrigation	FKDEA	95	77	-
Konni II Irrigation	OPEC	30	31	-
Dallol Maouri Irrigation	OPEC	-	-	27
Oasis Creation/Renovation	IDB	-	-	8
		-----	-----	-----
Sub-total Agriculture		2,388	4,390	2,948
Niger Center-East	IDA	322	344	384
Tamesna South	CCCE	66	40	77
Modern Poultry Production	BOAD	48	91	55
Dembou Dairy Perimeter	BOAD	-	-	186
Drought Emergency Aid	IDB	-	489	339
Dembou Bery Dairy Perim.	OPEC	-	146	226
Abattoirs Agadez/Zinder/Niamey/Algeria		-	-	651
		-----	-----	-----
Sub-Total Livestock		436	1,110	1,918
Forestry Project	IDA	378	253	529
Gao Dosso	CCCE	29	23	-
Forestry Project	CCCE	68	104	190
Aquaculture Development	CCCE	69	52	95
		-----	-----	-----
Sub-Total Forestry		544	432	814

Table 7 (page 2). Investment Budget (B.I.)
Actual RD Expenditures, 1985-1987

Agadez Garden Wells	CCCE	-	90	50
		-----	-----	-----
Sub-Total Micro Projects		-	90	50
		-----	-----	-----
TOTAL LOANS		3,368	6,022	5,730

(In millions of CFAF)

GRANTS	Donor	1985	1986	1987
Ag. Production Support	USAID	922	1,868	1,432
Niamey Dept. Development	USAID	675	983	886
Ag. Research Support	USAID	-	746	-
PDI Tara	USAID	-	58	-
Improved Seed Security	USAID	-	448	-
Ag. Sector Grant	USAID	-	830	865
Kareigorou Irrigation	FED	340	-	-
Daybery Irrigation	FED	537	1,216	353
Modern Rice Cultivation	FED	250	126	-
Zinder Rural Development	FED	16	-	-
Air Valley Development	FED	-	141	119
Training of Rice Farmers	FED	25	86	177
Tillakaina Perimeter	FED	-	32	51
Soil Conservation	FED	-	-	261
Cowpea Introduction	FED	-	-	727
Kirtachi Perimeter	FED	-	-	16
Lata Perimeter	FED	-	-	20
Small-scale Irrigation	FED	-	-	18
Dosso Rural Development	FAC	49	21	-
Dry Season Crops	FAC	-	34	-
Zinder Rural Development	FAC	-	-	5
Maine-Soroa Palms	FAC	-	-	15
Gatawani-Dole Perimeter	FAC	-	-	59
Perimeter Rehabilitation	KFW	-	-	687
Seed Farm Perimeter	Belgium	80	84	145
Say Rehabilitation	Belgium	-	67	104
Diffa Rural Development	CIDA	271	153	135
Crop Protection	CIDA	429	447	359
Micro Projects	CIDA	126	(a)*	50
Tahoua Productivity Proj.	GTZ	280	196	454
Crop Protection	GTZ	392	142	205
Teloua Dune Protection	GTZ	171	124	-

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Table 7 (page 3). Investment Budget (B.I.)
Actual RD Expenditures, 1985-1987

Air Rural Roads	GTZ	199	66	112
Keita Integrated Develop.	Italy	771	1,560	2,149
Rehabilitation Damergou	Italy	-	-	1,074
Tiaguirire Irrigation	China	2	-	-
Niger Fertilizer Project	FAO	280	40	142
FORPROSA	FAO	-	-	68
Gao Dosso Project	UNSO	108	-	-
Ag. Equipment Research	UNSO	160	311	305
Bilma Integrated Develop.	UNEP	3	61	16
Agro-pastoral Statistics	UNDP	57	37	-
Bilma Integrated Devel.	UNDP	-	32	38
Nguigmi Integrated Project	UNDP	-	-	95
HIMO Brigades	UNDP	-	-	122
Keita Integrated Develop.	WFP	-	905	-
		-----	-----	-----
Sub-Total Agriculture		6,143	10,814	11,264

*See notes at end of Table

(In millions of CFAF)

GRANTS	Donor	1985	1986	1987
Integrated Livestock	USAID	1,325	1,014	442
Livestock Feed	USAID	-	41	-
Peri-pneumonia Eradication	FED	63	75	155
Nomad Population Settlement	FED	-	-	87
Tahoua, Maradi Abattoirs	KfW	1,241	73	-
Tamesna South	FAC	26	9	22
Poultry Tech. Assistance	GTZ	94	45	18
Agro-sylvo-pastoral Project	GTZ	-	-	171
Laboratory Extension	UNDP	-	-	4
Central Lab Extension	FAO	-	10	9
Improved Forage Crops	FAO	-	44	-
Farm Poultry	UNEP	-	65	184
Central Lab Extension	UNEP	-	97	7
Drought Emergency Aid (b)	IDB	-	400	-
Rural Code Drafting	(c)	-	-	13
		-----	-----	-----
Sub-Total Livestock		2,749	1,873	1,112

Table 7 (page 4). Investment Budget (B.I.)
Actual RD Expenditures, 1985-1987

Forestry/Land Use (FLUPP)	USAID	682	400	628
Namari Goungou Fishery	USAID	-	2	-
Hunger Campaign	FED	-	-	83
Gao Dosso Project	FAC	-	5	-
Forestry Project	FAC	-	5	8
Aquaculture Development	FAC	-	-	61
Natural Forest Development	KfW	-	-	8
Borehole Plantations	Switz.	32	56	26
Dallol Maouri Palms	Switz.	29	50	23
Telous Dune Protection	GTZ	-	-	26
Fishery Development	FAO	-	-	11
Dune Fixation	FAO	-	-	61
Fisherman Training	UNICEF	-	8	14
Tahoua Greenbelt	UNSO	44	34	61
Niamey Greenbelt	UNSO	25	34	58
Bilma Palm Protection	UNSO	130	218	-
Gao Dosso Project	UNSO	-	7	64
Palm Protection Against Dunes	UNSO	-	-	105
Fishpond Development Study	Belgium	-	-	41
Air Wildlife Protection	IUCN	-	-	35
Fisheries Development	UNDP	85	96	-
Famine Prevention	(c)	-	85	-
Green Anorage	(c)	-	-	54
		-----	-----	-----
Sub-Total Forestry		1,027	1,050	1,367

(In millions of CFAF)

GRANTS	Donor	1985	1986	1987
Micro Projects	FED	-	195	77
Micro Projects	FAC	-	11	-
Micro Projects	CIDA	(a)	139	(a)
		-----	-----	-----
Sub-Total Micro Projects		-	345	77
		-----	-----	-----
TOTAL GRANTS		9,919	14,082	13,820
TOTAL LOANS & GRANTS		13,287	20,104	19,550

(a) Micro projects included under Agriculture in 1985 & 1987

(b) Listed as a grant but carried under loans in report

(c) "Under negotiation"; donor not named

SOURCE: Ministère du Plan, Direction du Financement des Investissements, Etat d'Execution du Budget d'Investissement, Gestion 1986 (Janv. 1987), Gestion 1986 (Janv. 1987) & Gestion 1987 (Janv. 1988).

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POLICY REFORM AREA: CEREALS MARKETING

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POLICY REFORM AREA: CEREALS MARKETING

I. DESCRIPTION OF THE POLICY RATIONALE

A. Problems

ASDG designers identified four major problem areas in cereal marketing. This section provides a brief economic/food policy analysis for each one.

1. Ineffective official producer prices

The official policy of farm income support was ineffective for a number of reasons: in some years, the official price was below free market grain prices in the areas where transactions took place. Further, even when official prices were above market levels, the lateness of OPVN purchases meant that traders, rather than farmers, who had already sold most of their surplus grain, would actually benefit from the policy.

It is important to recognize at the outset that official prices were never meaningful in a "national" sense. Given Niger's climatic conditions and production patterns, official prices could only be above market levels in certain areas (southern zones) at any point in time. Conversely, official consumer prices could only be below free market levels in certain areas (northern/deficit zones) at some point in time. National prices were therefore uniform in level but not in application.

The potential consumer surplus from buying at the official rather than market rate was greatest in deficit regions or famine periods, which appears "sensible". However, the potential rent derived by selling at the official rather than market price was greatest in the most productive and favored regions, which was less advantageous, from a social policy point of view.

2. Ineffective price stabilization

It is true that when the marketed quantity of a commodity represents a small proportion of domestic production public interventions on the market can have noticeable price effects, especially if the demand for that commodity is price inelastic. However, the price effect of OPVN interventions was diluted because:

- (i) non-official cereal marketing was large compared to official purchases¹, and,
- (ii) the size of grain movements from northern Nigeria represents in some years a very large share of total Nigerien grain exchanges².

Aside from the actual extent of OPVN price stabilization, one should note that under conditions of uncertainty in production and wide price fluctuations, such a policy objective tends to favor

1 Depending on yearly production, marketable grain surplus may top 350.000 tons p.a.
 2 Shortfalls in Nigerien domestic production can be partly made up through imports from northern Nigeria (150.000 to 200.000 tons p.a. is a common estimate).

consumers rather than producers of basic staples. Basic commodity price stabilization is advantageous to consumers, who buy their entire food requirements out of relatively fixed budgets. On the other hand, price stabilization tends to destabilize and redistribute farm income derived from marketable surplus. The reason is that in good years prices fall because farmers try to maintain revenue by selling larger quantities of low-priced cereals. This is all right since in these years marketable surplus is abundant. In bad years, marketable surplus is limited, but the rise in unit prices would normally help farmers meet revenue objectives from reduced sales.

Some of the most crucial cereal policy issues may be summarized as follows:

- In good years prices fall so much that even with increased sales farmers may not be able to meet monetary revenue objectives. This is possible if demand is very price inelastic, as is usually the case for basic staples.

- In bad years prices rise due to a scarcity of marketable surplus. In fact, when demand is rather price inelastic, an increase in price leads in the aggregate to a proportionally smaller decrease in food consumption, but it does involve a sharp increase in the food bill. Overall, this means either a reallocation of consumer income from the non-food to the food part of the budget, or a global decrease in consumption. For consumers already "at the margin" food demand may fall below "acceptable" levels.

- Finally, if food aid leads to an infusion of large quantities of cereals on domestic markets, its impact on arbitrageurs and on producers' incomes is negative (small quantities of marketable surplus are no longer offset by higher per unit market value).

These are genuine, complex food policy issues, but commodity price stabilization cannot be more successful in Niger than it is elsewhere. The first issue (higher and more stable farm incomes) can only be solved through increases in farm productivity, diversification of production, more local transformation of domestic food staples, and more efficient marketing systems, which are indeed fundamental ASDG goals.

Addressing the second issue involves among other things, direct food assistance programs to carefully selected target groups (including use of food aid), upgrading of income-earning ability (education, health), and more efficient marketing systems.

3. High cost of OPVN interventions

Through sub-optimal timing in its interventions, OPVN had limited effectiveness in farm income support and price stabilization; the basic problem was that the Office often bought and sold cereals at the "wrong" time, and from the "wrong" people, (i.e. buying long after harvest time, from traders rather than producers, for example). OPVN was also incurring large deficits. The Office was to use the margin between purchase and resale prices to cover most operating costs, but this margin was too narrow compared to transaction, transport and storage costs. The narrow size of marketing margin was the result of a political decision to ap-

pear both in favor of producers and consumers, and was mostly beyond OPVN control.

4. Poor circulation of information

Information on grain availability and prices did not circulate well in Niger, which had two main effects: (i) it raised transaction costs, and (ii) it hampered fair competition and market efficiency. To the extent that OPVN management made suboptimal decisions for lack of better information, this contributed both to budgetary deficits and to skewing the distribution of benefits derived from OPVN interventions.

Another effect of poor market information was that the impact of food aid on farm income and domestic production incentives could neither be correctly anticipated nor well understood.

B. Solutions

Cereal policy reforms prescribed under ASDG fell into four categories:

1. Abandon nation-wide official prices

Although they did not discuss in detail the counterproductive effects of uniform national cereal prices, ASDG designers prescribed the removal of this practice.

2. Institute a tenders/bids system at OPVN

Once uniform national prices were no longer officially binding, an obvious way of reducing OPVN deficits was to have lower cereal acquisition costs, and more efficient grain sales. The tender and bids system was expected to allow this, while increasing competition among large cereal traders. In fact, the tender and bids system could theoretically come to include cooperatives.

3. Liberalize grain movement and trade

It was felt that the liberalization of grain movements and trade would contribute much more to market efficiency (decreasing marketing costs and thus margins), support farm income and stabilize grain prices, than official policies ever could. A decrease in transaction costs would in fact be the only way to provide simultaneous economic gains to both producers and consumers.

In addition to the removal of uniform national prices and state monopolies, this was to be sought through a better integration of cooperatives into the marketing and grain storage systems.

4. Collect and publicize grain prices

This was to lead both to a better understanding of the way markets worked (including motivations and strategies of producers, intermediaries, consumers), and to increased efficiency and competition through better information at all levels. A better knowledge of prices was also considered essential for the preparation of OPVN tender documents and to improve purchasing practices.

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II. POLICY REFORM EXPERIENCE

This section of the report shows the translation of ASDG objectives into policy reform objectives, and examines the extent to which they were implemented.

The issue of exogenous factors is introduced at this level. This assessment is not meant to be a direct before/after comparison of certain indicators because we don't believe it is possible to sort out after the fact effects due to ASDG and effects due to other factors. In other words, taking the "partial derivative" of a key variable with respect to ASDG appears pointless. Our way of integrating exogenous factors is to show how they influenced policy reform implementation. This approach reduces the number of "relevant" exogenous factors to a manageable number, and makes each one more tractable to analysis.

A. Conditions precedent

1. Abandon National official prices

This policy reform objective was to "abolish uniform national pricing for cereals". In fact, this was understood to apply only to millet and sorghum. The only other major cereal for which prices were set by the government, rice, was not included in the analysis.

2. Tender and bids System

The specific reform objective was to establish a system of tenders and bids for OPVN's sales and local purchases of grain to enable cooperatives and private traders to participate fully in the marketing of grain. Proportions of OPVN transactions done through tenders and bids were to increase over time from 20% to 50% of total.

3. Other Measures

In the previous section on "Solutions" we indicated that ASDG designers had recommended the liberalization of grain movements and trade, and the collection/diffusion of grain prices. The extent to which they were implemented is therefore also discussed in the following section.

B. Actual implementation

1. Abandon uniform cereal prices

Uniform, nation-wide millet/sorghum prices were not officially set after 1985/86. The Nigerian government's decision to remove official prices (or rather, abstain from issuing new ones) demonstrated successful management of the difficult exogenous weather factor: two successive good agricultural years have kept farm level prices at very low levels since 1985. There has been,

and remains, some political pressure to take action³. On the other hand, favorable weather has allowed the government to avoid difficult choices regarding consumer price levels.

In any case, the question of official prices deserves some elaboration. Let us first consider producer prices.

What actually happened is that the definition of official prices evolved both conceptually and politically. Previously, the attitude had been that official purchase prices were "binding"; the state stood in principle ready to support producer prices and incomes by buying cereals from anyone willing to supply them at the official price. Among some, a more extreme view was that the state should also try to prevent transactions from taking place at lower levels. Over time, this attitude became tempered to the extent that instead of setting nation-wide, firm, and supposedly binding purchase prices, the government of Niger announced "indicative", intervention threshold prices. These are levels below which the administration feels producer prices should not fall, and which constitute both a trigger and lower bound for OPVN purchases. Such prices are, therefore, much more akin to market objectives than to lawful, enforceable parameters, as used to be the case.

Let us now consider consumer prices.

Official consumer prices have generally been less of an issue; there are several reasons.

Firstly, official producer prices were annually set by ministerial decree and widely published, while consumer prices were set on an ad hoc basis, in periods of exceptional tension on grain markets.

Second, producer prices are perceived as directly related to farmers' incomes, while staple prices appear directly related to basic food consumption, a relatively more sensitive issue. Secondary effects on farmers' food consumption and consumer incomes are significant but less obvious, overshadowed by the need to satisfy a basic want.

Third, the state has considerable latitude in determining which needy populations (rural as well as urban) require free food assistance. In a situation where the state determines the proportions of officially priced and freely distributed food, the level of official consumer prices becomes a rather moot point.

Finally, producer price support tends to become an issue in "good" years, when farmgate prices are depressed, but when the overall food situation is favorable. However, consumer price support becomes an issue in bad years, when purely economic arguments are least welcome, and when foreign donors contribute directly to food relief at best and to market destabilization at worst.

In recent years, official consumer prices for cereals (except rice⁴) have been set only during the 1984/85 drought period.

³ As of this writing, the Prime Minister has asked staff at the Ministries of Commerce and of Agriculture to examine again, in greater detail the current official price policies for cereals.

⁴ Contrary to millet, sorghum and other traditional cereals, the official consumer price for rice is not set at a maximum, but

OPVN purchases:

The following section on tenders and bids implementation shows that OPVN was not bound by official prices in its tender awards. For 1985/86 purchases, prices paid by OPVN were partly determined by the extent of competition among bidders on the one hand, and negotiations with URCs on the other. During the 1987/88 campaign, prices were partly determined through negotiations with large wholesalers and with URCs. However, in both cases, the amount eventually spent by OPVN was strongly determined by purchase dates and practices.

2. Tender and bids system

Since the tenders and bid system was only applied to grain purchases, the approach followed in this section is to first compare the financial cost of OPVN tenders and bid purchases with the financial cost of acquiring equivalent amounts of grain on the open market at prevailing retail rates. As a second step, we compare tender and bids purchases with purchases under an official price system, setting the official price level at 75 CFA/Kg for the purpose. Data requirements are straightforward: date, location and volume of purchases, terms of contract award and local market prices; these are reconstructed mostly from OPVN sources.

The most relevant exogenous factor is that the World Bank was undertaking a simultaneous set of policy reforms involving OPVN budget and management practices, as well as the maximum size of its security stock⁵.

a) 1985/86 Campaign

A tender and bids system was instituted in 1985. However, its intended purpose of reducing grain purchase costs conflicted with part of the Office's prevailing mandate: producer price support. In October and November 1985 some contracts were awarded at prices above prevailing retail levels, which did nothing to achieve either cost reduction or farm income support. About 45% of cereals were purchased from traders, while 55% were bought from URCs. URCs represent Departement-level farmers' cooperative associations, but this does not mean that farmers directly benefitted from OPVN purchases. Most producers had already sold grain by the time these transactions took place, and cooperatives as such have no available funds to prefinance purchases from farmers for later resale to OPVN⁶. URC sales to OPVN are actually fronts for large traders' operations.

rather at a minimum level, to help cover costs of domestic production and transformation.

5 Like Zalla et al. (Annex H of PAAD) the World Bank reached the conclusion that the size of the national security stock handled by OPVN was too large relative to resources available. Furthermore, the World Bank set the proportion of purchases through the tender and bids system at 80%, compared to the ASDG 20-50% level.

6 On primary marketing by cooperatives, (including cereals), see for example: "La Commercialisation Primaire par les Cooperatives" Ministry of Agriculture and Environment, DEP, April 1988.

COMPOSITION OF OPVN MILLET PURCHASES
1985/86 CAMPAIGN (tons)

	TRADERS	URCS	TOTAL	REGION %	% TRADER	% URCS
Niamey	3 579	4 405	7 984	18.3	44.8	55.2
Dosso	3 120	1 472	4 592	10.5	67.9	32.1
Tahoua	1 552	3 929	5 481	12.6	28.3	71.7
Maradi	4 915	6 857	11 772	27.0	41.8	58.2
Zinder	5 586	6 857	12 443	28.5	44.9	55.1
Diffa	816	500	1 316	3.0	62.0	38.0
Total	19,568	24,020	43,588	100%	44.9%	55.1%

TENDER/BIDS OF 12 NOVEMBER 1985
7,000 Tons - Financed by Canada

DEPARTEMENT (Tons)	RETAIL PRICE (CFA/Kg)	AWARD PRICE	LOWEST BID
DOSSO (500)	84	81	81
DIFFA (500)	78	95	95
MARADI (1,500)	53	87.5	79
NIAMEY (1,500)	80	81	80.4
TAHOUA (1,000)	76	89	80
ZINDER (2,000)	45	90	79

TENDER/BIDS OF 21 NOVEMBER 1985
16,000 Tons - Financed by OPVN

DEPARTEMENT (Tons)	RETAIL PRICE (CFA/Kg)	AWARD PRICE	LOWEST BID
DOSSO	84	75	70
DIFFA	78	75	70
MARADI	53	75	70
NIAMEY	80	75	70
TAHOUA	76	75	70
ZINDER	45	75	70

TENDER/BIDS OF 10 FEBRUARY 1985
13,780 Tons - Financed by the EEC

DEPARTEMENT (Tons)	RETAIL PRICE	AWARD PRICE	LOWEST BID
DOSSO	59	67	65
DIFFA	68	68	68
MARADI	41	63	59
NIAMEY	70	69	68
TAHOUA	67	65	65
ZINDER	36	60	59

OPVN often paid more for wholesale purchases than the prevailing retail rate partly because of suboptimal application of the tenders and bid system. Although there are a number of large grain wholesalers on any significant market, virtually all operate

strictly within the confines of the informal sector. Most cannot fulfill the formal requirements of the tenders and bid system, and find themselves ineligible from the very start. For the three 1985/86 tenders, the number of qualifying bidders was 7 out of 41 for the first tender, 4 out of 36 for the second one, and 14 out of 31 for the third.

Most traders deal in many other goods aside from cereals, and the "formalization" of their activities simply for OPVN tenders and bid purposes just does not appear worthwhile to them, especially since they can always work through qualifying "front men". This results, contrary to the intended purpose of the approach, in a concentration of oligopolistic power among large grain traders rather than in increased competition and more efficient transactions.

Starting with the first contract (Nov. 12, 1985), it appears that at the prevailing retail prices OPVN could have bought 7,000 tons of cereals for about 408 millions CFA. Since the Office actually paid 572 millions CFA, this represents an overcharge of at least 40%, or a 164 million CFA economic rent realized by a small number of grain wholesalers. We note that if the Office had followed the practice of buying at an official price of 75 CFA/Kg (the level arbitrarily chosen for purchases from URCs) the loss would have been "only" about 47 millions CFA. This particular application of the tender and bid system therefore resulted in a 117 million CFA loss over an official price approach.

The second contract (to URCs, at the uniform price of 75 CFA/Kg) had a mixed effect. URCs in Maradi and Zinder gained since the purchase price was above the retail level, while URCs in Dosso, Diffa, Niamey and Tahoua probably did not, considering transport costs to departmental capitals. The overall incidence on OPVN of purchasing through URCs rather than on the open departmental markets was a 175 million CFA loss.

Finally, purchases under the last (Feb. 10, 1986) contract added up to 12,577 tons out of the 13,780 tons awarded. Considering the monthly deliveries to OPVN from February through May of 1986 in the various departments, the total bill to the Office was about 192.5 millions CFA over the cost of equivalent quantities at prevailing retail prices. However, the award prices were all below an official price of 75 CFA/Kg which meant that about 157.5 millions CFA were "saved by the state".

The global cost of the 1985/86 OPVN campaign thus appears to have been on the order of 531.5 million CFA higher than it could have been had OPVN bought grain at prevailing market rates⁷. Note that an added advantage of direct market purchases from local producers, cooperatives and traders, is that such grain is of better quality. On the other hand, the savings compared to purchases at an official price of 75 CFA/Kg was 110.5 millions CFA. This saving is naturally not a net gain to the economy, it represents merely a foregone transfer from funding sources to grain wholesaling rentiers.

⁷ This estimate would be even higher if we took the lowest bids rather than retail prices as a reference, but lowest bids are not necessarily a valid reference.

b) 1987/88 Campaign

The 1987/88 campaign provides the second major experience in the tenders and bid system application. OPVN management intended to buy 25,000 tons of cereals, mostly with west German financing. The proportion set aside for tenders and bid purchases was 20,000 tons, or 80% of total. OPVN did break down the global amount into small lots (minimum of 150 tons) to allow participation by relatively small wholesalers.

Implementation, however, met with several problems. Tenders were publicized by radio and in the press on December 4, 1987, with a due date of December 15 for sealed bids to be delivered in Niamey. Since radio announcements were unclear to most traders, who had to contact OPVN agencies for additional information, this left very little time to fulfill necessary formalities, prepare and submit a sealed bid in the capital.

In terms of direct purchases, the lateness of OPVN's campaign meant that less grain could be bought from producers, who had already sold to local traders marketable surplus equivalent to their monetary requirements.

A very limited number of wholesalers finally qualified under the tenders and bid system, but since the Office was now attempting to strike deals at levels close to prevailing free market prices, wholesalers were not overly eager to accept contracts. Their anticipation of price movements over the next few months apparently led them to choose deferred over immediate sales close to spot prices. The small number of qualifying members from this extremely tight-knit guild may also have colluded to put pressure on OPVN. As a result, sales of cereals to the Office did not start until late February 1988, and most of the contracts were awarded at 85 CFA/kg. Even then, transactions were rather sluggish, OPVN having bought about 16,500 out of 20,000 tons by the end of April.

Since most of the purchases took place in the southern Maradi and Zinder Departments, the financial cost of 1987/88 operations was approximately 330 millions CFA above what it would have been had OPVN bought cereals shortly after harvest (early December) at prevailing market prices⁸.

3. Other Measures

a) Liberalization of grain trade

Cereals were identified as priority targets for internal trade liberalization in the PAAD section on "Institutional and policy constraints on agricultural production in Niger" (Annex H). Zalla et al. recommended that:

"at the primary level, any individual, merchant, trader, cooperative or other marketing intermediary should be able to purchase grain, cowpeas, and peanuts at any price at any time it chooses."

⁸ Prevailing December prices in Maradi and Zinder were at least 20 CFA/Kg lower than award levels. On 16,500 tons this translates into 330 millions CFA.

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This was indeed accomplished to the extent that the GON abolished legally binding uniform national prices for traditional cereals save rice, and the monopoly status of SONARA.

Another objective contributing to more efficient grain marketing was to "guarantee revolving funds for up to 200 functioning GM or cooperatives to enable them to make cash purchases of grain and maintain village level grain reserves".

The APS/CLUSA project has been highly successful in training cooperative members and help them organize themselves to design, finance through guaranteed commercial bank loans, and carry out a variety of profitable economic activities. However, most cooperatives have opted for activities considered more profitable than primary cereal marketing. This issue is discussed in greater detail in the "Cooperatives and Private Sector" chapter of this report.

The cereal marketing study done under the Joint Program Assessment⁹ suggested that grain markets in Niger were relatively efficient at handling temporal and spatial arbitrage¹⁰. Still, they noted that inter- and intra-annual price fluctuations were considerable, and that spatial integration, more efficient on east-west than north-south axes, took place with significant marketing margins.

Temporal marketing margins are mostly determined by the respective storage and capital immobilization costs of the various economic operators involved (farmers, traders, OPVN). For traders, they also include the risk of having agents of the state take over their stocks at an arbitrary price in times of acute shortages.

Spatial marketing margins are determined by transport infrastructure and costs, degree of competition and economic efficiency in trade, circulation of information on prices and costs, and administrative or legislative obstacles to movements of goods.

Since 1985 people have been relatively free to engage in cereal marketing and storage, the removal of legal official prices and state monopolies being the major reason for this. The fact that out of the last three campaigns two were good and one passable certainly eased the situation. Most people who have extensively traveled and traded within Niger over the past few years report that it has become easier to do so. However, movement of grain, and of other basic goods, remain subject to strict control. In his January 1988 report¹¹, David Wilcock explains in detail the extent of controls by the police, Gendarmerie, Garde Republicaine and customs officials. He provides estimates of costs due to these controls. Some, like "unofficial taxes" are direct transfers from one segment of the economy to the other. Other costs are dead-weight losses; they include time wasted and losses in produce due to controls, and possibly concentration of market power into the hands of operators better organized to "deal with the system".

9 Joint Program Assessment of Grain Marketing in Niger. Elliot Berg and Associates, December 1983.

10 Temporal arbitrage tends to equalize prices over time through storage and deferred sales, while spatial arbitrage tends to reduce differences between points to minimum transport and marketing costs.

11 "Study of Constraints to Increased Exports of Agropastoral Products in Niger". David Wilcock, DAI, Jan. 1988.

The statistical analysis presented below tests whether there were gains in grain marketing efficiency due to ease of restrictions.

Inter- and intra-annual price fluctuations of grain prices expressed in constant terms have been analyzed in detail on the basis of monthly data for the 1970-1986 period¹².

Inter-annual fluctuations were very large compared to the variability of domestic production (in constant population terms), with a period average of 32.5 CFA/Kg and a standard deviation of 8.6.

Intra-annual fluctuations are also significant, but even there, the direction of price change over the year is far from being constant. If we take the April 1 - September 30 as a reference "soudure" period, it turns out that prices do not follow a simple, systematic pattern year after year. From 1970 through 1987, the number of years when prices fell during that time is equal to the number of years when prices rose.

Although inter-annual fluctuations have been dampened since 1985, this latter period is much too short to establish a trend, or draw conclusions on the possible determinants of this short-term stability. Graphs 1 and 2 show the monthly evolution of millet prices in Dosso, Maradi, Niamey, Tahoua and Zinder for both periods.

Spatial marketing margins and integration have also been analyzed in detail, for the 1982-1987 period¹³. Correlation analysis of free market retail prices in Dosso, Maradi, Niamey and Zinder show a good spatial integration, coefficients of determination being:

	DOSSO	MARADI	NIAMEY	ZINDER
DOSSO	1			
MARADI	0.713	1		
NIAMEY	0.749	0.829	1	
ZINDER	0.684	0.893	0.824	1

A comparison of correlation for the 1982/85 (n=32) and the 1985/April 1988 (n=30) periods, seasonally matched, does not show any significant difference.

12 "Analyse de l'Evolution à Moyen-terme des Cours Céréalières au Niger et de leur Variabilité par Rapport aux Niveaux de Production". MA/DEPSA, November 1987.

13 "Les Prix comme Indicateurs de l'Etat et du Fonctionnement des Marchés Céréalières au Niger". MA/DEPSA, December 1986.

The absolute and relative sizes of marketing margins between Zinder and Niamey for the 1982/85 and the 1985/April 1988 periods (see Graph 3) suggests a slight decrease:

	Average (CFA/Kg)	St. Deviation	
1982/85	27.3	14.8	n=32
1985/88	25.9	17.3	n=30

However, this decrease is not statistically significant¹⁴.

b) Collection/diffusion of market prices

Market price collection for basic foodstuffs has been going on in Niger for many years, the government having long ago recognized the importance of monitoring closely such key indicators. Monthly averages for cereal prices in Niamey for instance date back at least to the 1960s.

Cereal prices have been collected over time by a variety of sources. In Niamey, the Ministry of Plan has been monitoring them to determine the consumer price index. The Ministry of Commerce's Direction du Contrôle des Prix also follows them (although less systematically, and for official use only). In the interior, cereal prices are collected by Ministry of Agriculture agents, by the Gendarmerie, and by OPVN's field agents. The Ministry of Agriculture data have traditionally been spottier and less timely, figures from OPVN agents being more regularly and promptly communicated to Niamey. The Gendarmerie, relying on the Interior Ministry radio network can report prices very quickly, but their reliability is questionable. Each group uses their own survey and sampling methods, visit different markets, at different intervals, etc. which naturally makes comparison and checking of data quite difficult.

Ministry of Plan data have been available in their monthly and quarterly statistical bulletins, Ministry of Agriculture data have been available in annual statistical reports, Gendarmerie prices were communicated to OPVN, and OPVN issued a stocks and prices bulletin at varying intervals.

Over time (since the early 1980s) the evolution of cereal price data collection and diffusion has been as follows:

- Ministry of Plan, Ministry of Agriculture, and Gendarmerie data collection and diffusion remained relatively constant.
- Through 1984 and part of 1985 OPVN issued monthly stocks and price bulletins based on their own as well as on Gendarmerie price data. In the summer of 1985 a consultant financed under the German reserve stock project helped improve survey methods, and report preparation. Monthly bulletins came out regularly until the fall of 1985; price and stock data were partly processed on computer equipment available at OPVN.

¹⁴ The point estimator of the difference between the two means $(\bar{y}_1 - \bar{y}_2)$ is less than one standard deviation of $(\bar{y}_1 - \bar{y}_2)$.

- In the fall of 1985, OPVN responded to World Bank pressure for budget cuts by laying off low-level laborers, reducing the number of its rural buying centers by a factor of about 5, and decreasing allowances for communications (telex and telephones). We believe financial benefits from these "savings" were much smaller than their economic costs. OPVN bulletins disappeared for several months in late 1985, and reappeared later as quarterly bulletins. Part of the bulletins data presentation (maps, graphs) was provided under an informal exchange arrangement with the FEWS project researcher at the Ministry of Health.

- In the fall of 1987 the FAO provided OPVN with technical assistance to upgrade cereal price data collection and publication. Although the extent of such technical assistance is limited, OPVN has been publishing monthly bulletins since January 1988. Such bulletins are, however, distributed only to official agencies in Niamey.

- In the spring of 1987 the Ministry of Agriculture started publishing a summary situation report¹⁵ every two weeks or so to present quickly and concisely to decision makers up to date information on crop status, rainfall, official stocks, cereal prices, etc. This report goes to the Prime Minister's office, the Minister of Agriculture, OPVN, the Ministry of Commerce, RINI, and various donor agencies (AID, FED, CCCE, PAM).

- Also in the spring of 1987 ONAHA's monitoring unit started following paddy prices on small rural markets located along the Niger river. It is not known how long this survey will last, and distribution of results is quite limited.

- RINI has recently started collecting market prices for domestic and imported milled rice; these data are not yet widely available.

What conclusions can we draw from the last few years' experience?

■ Although GON agencies appear interested in obtaining price information, they have not taken the initiative in improving or distributing it more widely. On the contrary, donor agencies are eager "consumers" of such data, and support most collection efforts.

■ Still, price data collection and distribution remain limited. It circulates within a rather small network, and virtually none leaves the Niamey city limits.

■ No such information has been broadcast on the radio (as is currently the case in Senegal); although some members of the administration are in favor of such broadcasts, many remain firmly opposed or think it would have no useful impact.

III. ASSESSMENT OF POLICY REFORM IMPACT

With respect to anticipated program benefits from policy reforms in grain marketing, we quote from the grant agreement:

"...The policy changes are also expected to contribute to the reduction of the costs of managing the country's food reserves and to increase farmer incomes and export earnings from agricultural production."

A. Macroeconomic impact

The removal of official prices can only have had a positive economic impact through gains in market efficiency, however, it cannot be precisely quantified at this time.

The impact of removing official prices upon the national budget was positive, however, the extent to which current practices represent an improvement over old ones depends less on the official policy as such than on the date and locations of OPVN purchases.

The economic value of an improvement in information is difficult to assess. However, we feel the collection/diffusion of grain market prices had a positive impact to the extent that decision makers may now be better informed of market mechanisms, evolution of prices, and possible impact of various policy options. The fact that detailed information is more readily available has highlighted the weakness of certain policies. Demand for such information by donor agencies, especially the ones involved in food aid, is so strong that current market data collection and diffusion efforts must have a positive impact.

As we noted above, budgetary impact from removing official prices and carrying out tender and bid grain purchases has been very slight. It is partly because the government uses very little of its own money to manage the national security stock.

The typical pattern rather consists of buying cereals with foreign funds, storing the grain and reselling it later at a higher price. Upon sale, the proceeds, minus some fixed transportation and/or handling expense per ton, are placed into a counterpart fund.

Here's an illustrative example. Suppose the government wishes to buy 20,000 tons of millet for its security stock, with donor funds. We consider two possible cases. In case one millet is bought at an average 80 CFA/Kg for a total cost of 1.6 billion CFA. In case two millet is bought at an average 65 CFA/Kg for a total cost of 1.3 billion CFA.

After several months 20,000 tons are sold for an average 110 CFA/Kg (2.2 billion CFA) and the proceeds, minus OPVN charges, are deposited into a counterpart fund. Obviously, the main determinants of the amount deposited are the sale price and the OPVN charge. The purchase price does matter to the donor (300 million CFA difference) but the government has no strong incentive to minimize it. On the contrary, a higher purchase price allows the state or the public service to extend political patronage. Furthermore, the government has every incentive to maximize counterpart fund proceeds (without raising consumer prices) by under-

charging for OPVN services, and letting the Office accumulate debts.

The experience of the last few years suggests that the donor's attitude with respect to rigor in execution is all-important. The difference between the November 1985 and February 1986 purchases is a case in point.

B. Net Effect by Main Group

1. Higher-income rural households

To assess this impact, we first define the relevant differences between these and lower-income rural households. One of the major differences is the size of the food stock, and the diversity and level of alternative sources of income. More successful households are less pressed by monetary needs at harvest time. They are therefore better able to maximize the utility they derive from cereal production either by selling at more profitable times, by waiting for official buying campaigns, or simply by not having to purchase cereals later on in the year.

To understand the impact of official purchases on various groups, one must recognize that in recent years, grain bought by OPVN has simply been snitted from traders' warehouses to state silos. An immediate profit was made by the arbitragers involved (large wholesalers), who could then use the money either to replenish the portion of their stocks sold to the government, or invest into some other economic activity. To the extent that they did replenish their grain stocks¹⁶, aggregate demand was increased, and there was a resulting rise in grain prices, which potentially benefitted anyone still holding grain stocks after the OPVN intervention.

The amount of intra-annual storage done by larger rural households is thought to be significant. In a good year (e.g. 1985/86) the gross surplus from farmers' point of view (production minus annual consumption, minus seed and partial stock reconstitution) may reach 500.000 tons of cereals.

This constitutes potentially marketable surplus. Part of this surplus is marketed at harvest time to meet pressing cash requirements. A small proportion of it is sold right away, but the remainder constitutes traders' short, medium or long-term stocks for the year.

Most of the cereal surplus not marketed at harvest time is held by large rural households, who will be selling some grain over time during the year and keeping the remainder for the following year's consumption or sales. The rate of marketing over the year depends very much on the evolution of market prices. OPVN's annual stock rotation requirements are at most 40.000 tons, and grain traders' storage capacity is limited both by physical space and capital requirements. Our rough estimate is that traders can make at harvest time an investment of at most 150.000 tons (representing a considerable investment, about 8 billion CFA). This means that in a good year rural households may be holding up

16 The extent to which they did is open to question, since they must have expected OPVN to put grain back on the market later, thereby depressing prices and the market value of stocks still held by traders.

to 300,000 tons of potentially marketable cereals. The impact of policy changes on the economic value of such stocks can therefore be sizeable.

It is important to recognize that to grain-storing rural households, the very fact that OPVN is buying grain is more relevant than the official purchase price, since OPVN tends to buy from wholesalers anyway. Wholesalers capture immediate rent, while grain-storing households benefit from the price increase due to the shift in demand, to them the quantity bought is the crucial variable, not the OPVN price. Reducing OPVN purchase prices did diminish wholesalers' rents, but it had almost no impact on other grain holders, because the purchase price no longer determines the amount OPVN can afford to buy.

The liberalization of grain markets is expected to have had a positive impact on grain-storing households, however, to date this impact has been very slight.

2. Lower income rural households

These are the households which sell most of their grain surplus at harvest time, or even have to purchase additional grain later in the year. Here too, removal of official prices had a slight direct impact; the policy had little effect on them in the first place since they had limited access to OPVN buying agents, and had often sold all available surplus before the official purchase season.

Grain trade liberalization effects take time to filter down to the rural household, and there is for the moment little hard evidence of improvement¹⁷.

3. Large traders

The impact from the removal of official producer prices and of using a tenders and bids system on large wholesalers was mixed. Compared to a classic official prices situation, both the number of benefitting wholesalers and total rent accruing to them diminished. In the 1985/86 example, their loss was about 110.5 millions CFA. However, the smaller total rent was distributed under the new system among a smaller number of wholesalers, so that individual rents captured may in fact have been greater than before. Globally, the new situation is likely to be Pareto-inferior to the former one, because the decrease in transfers among economic groups does not offset losses in economic efficiency due to increased market power concentration.

4. Small traders

To the extent that small rural traders used to have access to OPVN direct purchases at official prices, the removal of official prices has meant a definite loss in rent (equal per unit sold to the difference between official prices and retail levels).

The tender and bids system had no positive impact on small traders. Although OPVN was willing to accept bids for relatively

¹⁷ See for example "La Commercialisation Primaire par les Coopératives". Op.cit. 1988.

small quantities in 1987/88 (150 tons minimum), they have not been able to meet requirements, and, as we saw above, large wholesalers tended to strengthen their market position. Small traders merely continue to act as short term arbitragers, and suppliers to grain wholesalers.

However, grain market liberalization has been favorable to small traders as a group, by reducing transaction costs.

5. Urban consumers

The removal of official farmgate prices and the tender and bids approach had very little impact on grain prices paid by urban consumers. Here too, the main reason is that the impact of OPVN grain purchases on market prices is determined by the quantity bought (shift in demand) rather than by the price paid. Of course, the price paid used to determine the amount OPVN could purchase with a fixed budget, but this situation no longer pertains; the amount is limited through agreements with the World Bank, and purchases are mostly donor financed.

The fact that official consumer (ceiling) prices are no longer set does not matter much either. As we explained before, the government retains in any case the option of distributing cereals freely to some groups, or on the basis of a fixed quantity allotment to others.

Here too, the liberalization of grain markets can only have a positive impact, but it is a longer term benefit.

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V. CONCLUSIONS

ASDG policy reforms in grain marketing were undoubtedly well chosen, and all but one of them had positive effects on the economy in general, the exception being the tender and bids system for grain purchases. However, for a variety of reasons difficult to foresee at the design stage, positive effects ranged from modest to infinitesimal over the brief time span considered.

Of all factors directly related to policy reform impact, actual policy implementation was naturally the major determinant. Policy implementation revealed a highly rational pattern of national response to specific short-term incentives or political objectives (e.g. strategies to fund political patronage or to optimize counterpart fund deposits). When such incentives were sufficiently strong, they overwhelmed the more general ASDG orientations.

Policy reform experience in grain marketing demonstrates that actual implementation, while meeting the letter of an agreement, can create, at least in the short-run, a sizeable gap between intended effects and actual impact, both in the aggregate and distributional senses.

Implementation was relatively straightforward with respect to official prices, timid with respect to market liberalization, collection/diffusion of market prices, and clearly counterproductive in the case of OPVN tenders and bids.

Although we agree with ASDG designers that OPVN stocks should be kept to a manageable size, the reduction of OPVN grain reserves should obviously not be perceived as an end in itself. Placing limits on grain to be bought by OPVN may have been perceived by the World Bank as the most practical cost-containment strategy, but it certainly is not an efficient one. The Office may outwardly respect the letter of the agreement, but improvement is slight as long as smaller amounts of grain are bought at higher prices.

As implemented, the tender and bids system has had a negative impact on the economy. Furthermore, the tender and bids system may be amenable to improvement only to the extent that donors financing grain purchases under this system are willing and able to modify current practices.

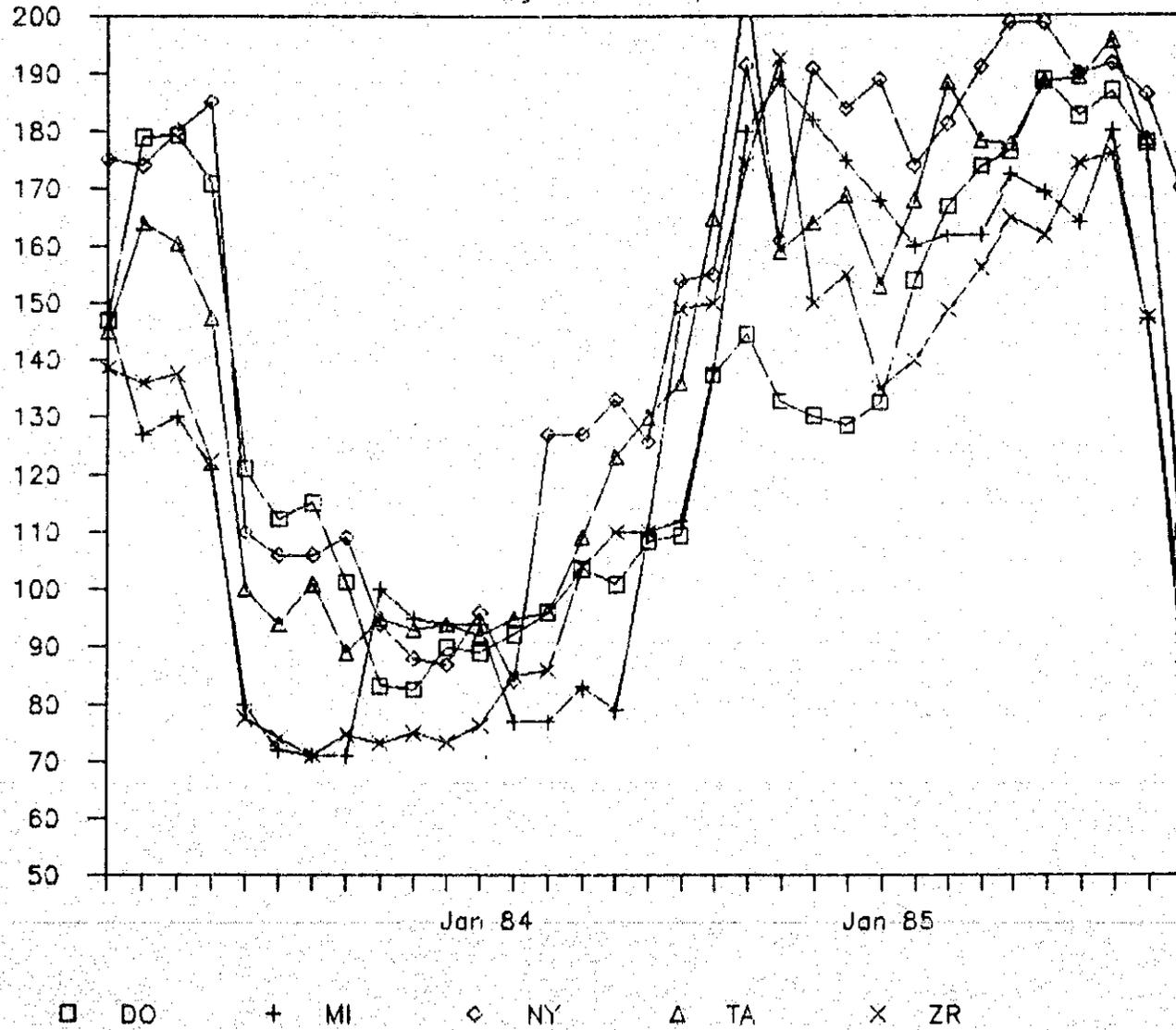
As long as the principle of removing official prices is accepted, one may consider complementing it by direct OPVN purchases at prevailing market prices. The ASDG experience has amply demonstrated that any policy or approach is only as good as the manner in which it is carried out. However, the advantage of direct purchases is that they don't require sellers to pass through a sieve of eligibility. The most stringent requirement is an independent and reliable knowledge of, and adherence, to prevailing market prices.

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GRAPH 1

Monthly Millet Prices

May 1982 - Sept. 1985

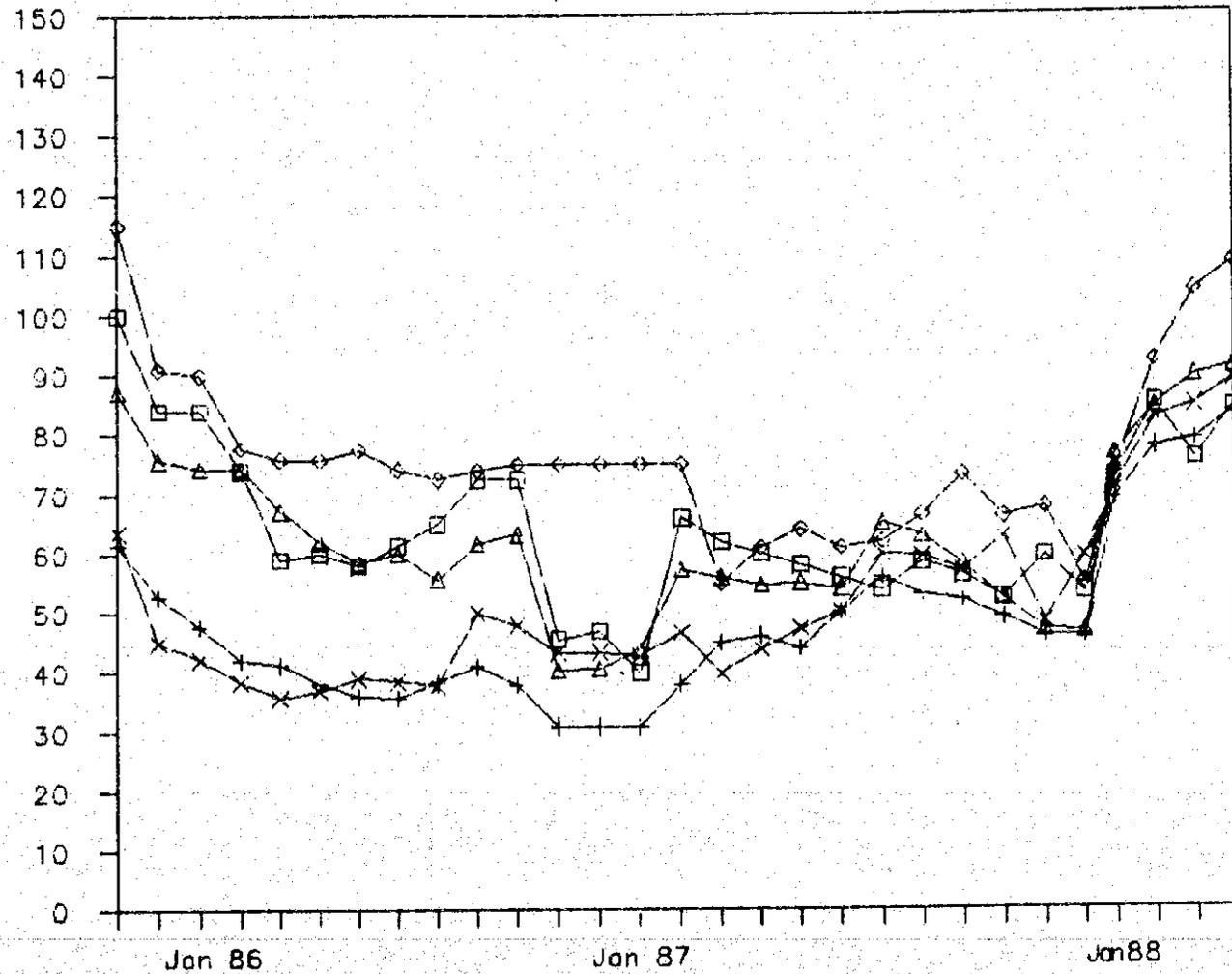


44

GRAPH 2

Monthly Millet Prices

Sept. 1985–April 1988



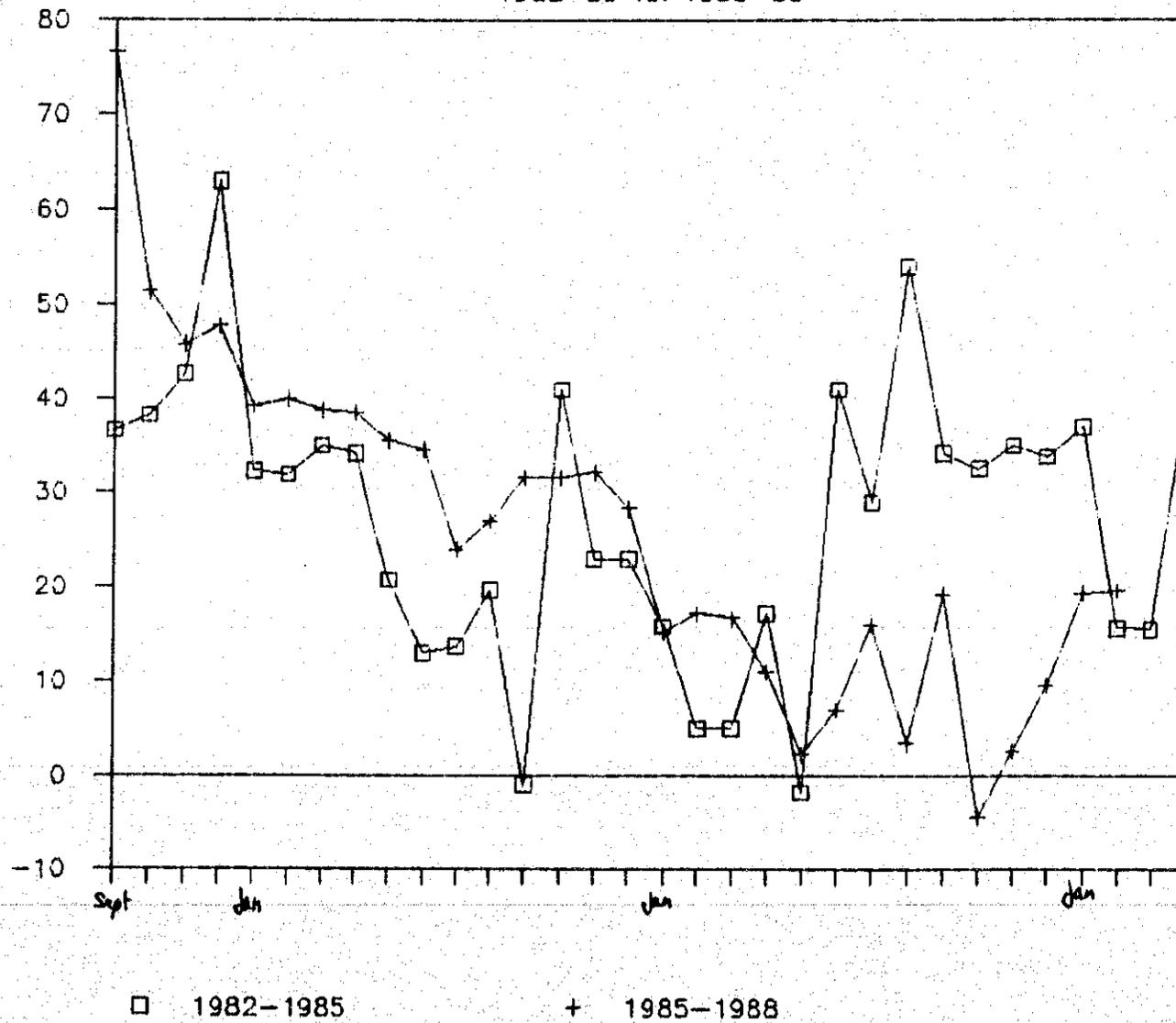
□ DO + MI ◇ NY △ TA × ZR

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GRAPH 3

Marketing Margins, Zinder-Niamey

1982-85 vs. 1985-88



□ 1982-1985

+ 1985-1988

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POLICY REFORM AREA: AGRICULTURAL INPUTS

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I. DESCRIPTION OF THE POLICY RATIONALE

ASDG designers considered that most macro and micro-economic constraints to efficient input use in Niger were closely related to subsidies. Inappropriate implement design, credit constraints and a limited role for the private sector were also stressed.

The overall goal and purpose were to:

"Reorient the agricultural input supply subsidy policy and restructure the official input supply agency in order to make more agricultural inputs available to farmers at prices which reflect real economic benefits to the agriculture sector".

A. Problems

The original statement of problems related to subsidy-induced constraints and inefficient input allocation were expressed as follows:

- subsidies are fixed implicitly rather than explicitly;
- subsidy and input price setting methods actually reduce the number of inputs available to farmers;
- subsidies on agricultural inputs promote inefficient use of scarce resources.

Subsidies on inputs handled by the CA took the following forms:

- Direct appropriations from FNI and CSPPN (FNI subsidies set aside for the CA used to compete directly with other types of investments, including agriculture). Amounts grew rapidly from 1974 through 1980, but leveled off as the budgetary situation deteriorated.
- Bank (CNCA) line of credit to the CA. In addition to cash purchases, the CA bought inputs with a CNCA line of credit. When the CA sold inputs on a cash basis, it simply traded inventory for cash. In the case of sales on credit, the CA substituted inventory for a cooperative IOU, which they turned over to the CNCA for discounting since the CA had no revolving fund allowing deferred payments by clients.

Since the CA sold inputs 'at cost' they had no way to cover operating expenses other than through indirect subsidies provided by the state in the form of certain personnel salaries. They therefore started using the CNCA input purchase line of credit to solve operating cash flow problems.

In a simplified way, the CNCA therefore extended (i) an input purchase line of credit to the CA, (ii) short-term operating expense credit to the CA, and (iii) longer-term credit to cooperatives, to be collected and channeled back to CNCA via the UNCC.

In addition, subsidies were extended through civil service salaries, administrative and warehousing costs for the CA and farm

implement workshops, and through the CA's preference for local inputs over less costly imports.

The question of subsidies was, and remains, so central that it requires further and elaboration.

Globally, the input system did not cover costs. The costs of purchase or manufacture, handling, storage, transportation and credit were definitely much greater than receipts from end users. The difference between costs and receipts constituted global subsidy to the input purchase-manufacturing-storage-distribution complex.

To illustrate the situation with a practical example, let us take fertilizer, where the entire purchase, storage and distribution costs for 10,000 tons represent 900 millions CFA. If this fertilizer is sold for 60 CFA/Kg the global subsidy is 300 millions, or 30 CFA/Kg.

To the extent that the state can only afford to provide the extra 300 millions CFA¹, official supply is effectively limited to 10,000 tons. This may represent a loss to the economy, especially to farmers, if more than 10,000 tons could have been economically used.

To the extent that 10,000 tons of fertilizer provide additional production worth more than 600 millions (otherwise farmers would not use it) but less than 900 millions, there is a net loss to the economy due to inefficient resource allocation.

To the extent that the global subsidy is decreased through user price increases (reducing direct subsidies) rather than by gains in efficiency in purchase, storage, and transportation (reducing indirect subsidies) the decrease in global subsidy is achieved mostly through a transfer from farmers to the rest of the economy. The same negative impact on producers is felt if the supply constraint is relaxed through user cost increases rather than gains in system efficiency.

In the ASDG case key issues are:

- did this subsidy place a limit on the amount of inputs the state can afford to handle (supply constraint);
- did the subsidy element translate into a difference between the price and cost of the resource leading to inefficiencies in use;
- who actually paid for the element of subsidy.

B. Solutions

Prescriptions to improve the agricultural input situation included gradual removal of subsidies, improvement in input suitability, and increased reliance on the private sector and cooperatives. They did not involve input-specific policy actions

¹ Actually, the subsidy was only partly in cash, the rest being accrued interest bearing debts to the CNCA, so that the subsidy would grow over time regardless of other factors.

(fertilizer vs. implements, vs. crop protection chemicals, for instance). They comprised the following:

- (a) Increase the overall availability and use of improved agriculture inputs by adjusting prices and subsidies in a way that increases aggregate agricultural growth and production in Niger and fully reflects production and procurement costs;
- (b) Improve the responsiveness of producers and suppliers of inputs to the needs of farmers; in particular, encourage technological adaptation and the provision of better quality and lower cost inputs;
- (c) Minimize the drain on the government of Niger's investment and operating budgets by shifting the cost of input production and supply to the private sector to the extent feasible; and
- (d) Promote the role and importance of cooperatives and groupements mutualistes in supplying inputs to farmers.

We wish to emphasize here that ASDG designers felt that necessary efficiency gains in the input purchase-delivery system would occur partly through better design of implements and a shift of input production and supply to the private sector. This was not to be accomplished directly through ASDG policy reforms, but through the related Agricultural Production Support and Niamey Department Rural Development projects².

II. POLICY REFORM EXPERIENCE

A. Conditions Precedent

In the original grant agreement and its subsequent amendments, the four broad policy reform prescriptions listed in the above section were expressed through the following conditions precedent:

- Reduce over successive tranches the average level of subsidy on agricultural inputs from a maximum of 50% to 15% of the delivered cost of the inputs;
- Take appropriate action to make the CA move closer to being an autonomous cooperatively owned entity, and ensure the existence of competition between the CA and private traders by not granting the CA a monopoly, de jure or de facto, in the supply of inputs.

In addition to the list of conditions precedent for each tranche, Annex A of the original grant agreement provided implementation indicators and criteria for main program objectives over time. In terms of inputs,

Tranche 1: "A new method for the setting of subsidies is adopted. The amount of subsidy is specific to each type of input rather than being a global appropriation to an input manufacture or supply agency."

² Management studies and technical assistance to the CA, Management study of the ateliers, animal traction prototype project at Ndounga, cooperative seed multiplication.

Tranche 2: no elaboration on the CPs.

Tranche 3: no elaboration on the CPs.

Tranche 4: "There is continued progress in the privatization of input delivery systems."

It is important to note here the considerable gap, in scope and level of detail, between policy reform orientations prescribed in the PAAD and conditions precedent contained in the grant agreement, which laid the basis for tranche evaluations.

B. Actual Implementation

1. Input subsidies and pricing

The evolution over time of official retail prices for agricultural inputs is presented in Table 1, on the following page.

Fertilizer:

In the first place, the selection of a proper shadow price and the estimation of direct subsidies on fertilizer were complex. We agree with the PAAD authors that the world market price of fertilizer would not be the best reference. We consider that in the short-term the full delivered cost of fertilizer imported from Nigeria represented the best measure of domestic resources foregone and foreign exchange outlays through the use of fertilizer in Niger³. The estimate was further biased by the need to figure subsidies on the basis of CA deliveries rather than on the basis of actual fertilizer sales and use.

Aside from methodological problems, the overall context was redefined by major changes in the GON's fertilizer procurement and subsidy policy. The collapse of the national input delivery/credit complex (UNCC and CNCA), continued budget strain, and a particularly bad agricultural year, 1984, contributed to this significant switch from purchased to donor-supplied fertilizer. Thus, by 1986 over 90 percent of fertilizer handled by the CA came from various donors.

This switch to donor-financed supplies of fertilizer provided budget relief, shifted the responsibility for subsidies from GON to foreign sources, and partly insulated Niger from a possible sudden change in supply conditions from Nigeria (re-evaluation of the naira or removal of Nigerian subsidies on fertilizer).

Using the delivered cost of fertilizer imported from Nigeria by the private sector as a shadow price for CA supplies, the direct subsidy on officially distributed fertilizer was kept within the bounds of the grant agreement.

Other inputs:

Table 2 on the following page shows the evolution of official deliveries of agricultural inputs from 1978 through 1986.

³ This was seen as adequate in the short-term only, since it did not integrate the medium-term risk of having Nigerian fertilizer supplies dry up suddenly for some exogenous reason.

CESSIONE

EVOLUTION OF RETAIL PRICES, MAIN AGRICULTURAL INPUTS, 1978-1987

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
FARM IMPLEMENTS:										
Bati de base	4,000	4,000	4,000	6,000	6,300	8,455	11,000	11,000	18,135	18,135
Chartue 10"	4,000	4,000	4,000	6,000	6,715	9,015	11,700	11,700	19,335	19,335
Charrue 8"	0	0	0	6,000	6,715	9,015	11,700	11,700	19,335	19,335
Canadien 5 dents	4,000	4,000	4,000	6,000	9,180	12,320	16,000	16,000	26,418	26,418
Canadien 3 dents	3,000	3,000	3,000	4,500	5,635	7,565	9,800	9,800	16,228	16,228
Butteur	2,500	2,500	2,500	3,750	3,750	5,150	6,150	6,620	10,667	10,667
Jeux lames SS	2,500	2,500	2,500	3,750	3,750	4,840	6,620	6,150	9,946	9,946
Houes asines	8,000	8,000	8,000	12,000	12,665	12,665	14,000	14,000	20,662	20,662
Semoir monorang	12,000	12,000	12,000	27,200	28,240	30,760	38,500	38,500	67,034	67,034
Charrettes bovines	45,000	45,000	65,000	77,500	87,500	87,500	89,500	87,500	94,733	94,733
Charrettes asines	28,000	28,000	45,000	65,400	73,200	73,200	76,800	73,200	80,007	80,007
FERTILIZER: (CFA/Ton)										
Uree	35,000	35,000	35,000	50,000	50,000	50,000	60,000	60,000	65,000	65,000
15-15-15	30,000	30,000	30,000	45,000	45,000	45,000	52,000	60,000	65,000	65,000
Super Phos. simple	20,000	20,000	20,000	35,000	35,000	40,000	45,000	45,000	50,000	50,000
Super Phos. Triple							70,000	70,000	75,000	75,000
Phosphate Tahoua	25,000	28,000	28,000	28,000	28,000	28,000		35,000	35,000	35,000
14-23-12								60,000	65,000	65,000

NOTE: For the last two years, farm equipment was actually sold through the "vente promotionnelle" at prices much below levels shown here.

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A presidential announcement was made in the summer of 1985 to the effect that subsidies on agricultural inputs were removed, except on fertilizer and on large-scale livestock vaccination and crop protection campaigns.

In addition, the disbanding of the UNCC enabled some administrative decentralization of the input manufacturing and delivery system (CA/workshops/DPV).

In the case of farm implements, however, the removal of direct user subsidies was ineffectual. Virtually all implements purchased since late 1985 have been sold through the "vente promotionnelle" at prices ranging from 64% to 26% of workshop cost⁴. This sale was supposed to take place over the 1986/87 agricultural campaign, allow workshops to get rid of costly inventories, and rapidly raise part of the capital required for their reorganization.

By December 1987, only 36% of the inventory value had been sold, and of the net sales proceeds, only 23% had been placed into a treasury account which could be used to finance the workshops' reorganization.

For crop protection chemicals, much the same approach was used as for fertilizer. Chemicals and spraying equipment are now mostly supplied by donors. Budgetary strain and supply constraint problems are thus momentarily resolved, and the resource efficiency issue does not arise in the case of large-scale crop protection.

In the case of cotton, there has been no decrease in the 100% direct subsidy on crop protection chemicals. Up to 1986 the CA purchased chemicals on a tender and bids system; in 1985 the cost of GON subsidy on fungicides and insecticides amounted to 142 millions FCFA, 94% of which was for cotton insecticides⁵. In 1987 crop protection activities were transferred to a specialized, donor-supported agency of the Ministry of Agriculture.

However, the 1988 decision to set cotton producer prices closer to levels prevailing in neighboring countries (and on the world market) will certainly have a positive impact on the allocation of chemicals as a scarce resource.

2. Responsiveness of input suppliers

According to the PAAD, the procurement or manufacture of more appropriate agricultural inputs was to lead both to a reduction in indirect subsidies, and to more efficient resource allocation.

For fertilizer and crop protection chemicals, the effect of an increased donor dependence on responsiveness to the needs of users is not known. For fertilizer, the gain in market share achieved by the private sector may have resulted in more timely deliveries in response to effective demand. On the other hand,

⁴ For Niamey's AFMA the sale prices as percentage of workshop cost were: weeder 26%, plow 41%, multi-use towbar 41%, sprayer 50%, ox cart 60%, donkey cart 64%.

⁵ "A Study on the Costs and Returns to Insecticide Use on Cotton, and a Proposal to Reduce the Insecticide Subsidy". Ministry of Agriculture/DEP, May 1988.

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HISTORIQUE DE DEMANDE EN INTRANTS AGRICOLES

	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86 (1)	1986/87 (5)
	QUANT. ACH	QUANT. ACH							
Bati de base	3,494	3,405	4,500	5,324	1,902	3,729	925	1,053	201
Charrue 10"	2,060	1,777	1,980	9,309	915	1,030	636	839 (2)	123
Charrue 3"	0	0	0	0	311	722	72		32
Canadien 5 dents	362	468	2,053	2,031	810	664	211	367 (3)	29
Canadien 3 dents	2,562	1,295	1,238	1,995	862	1,282	244		56
Butteur	844	431	760	903	260	258	132	253	131
Jeux lames SS	2,033	824	2,654	3,662	582	1,798	211	82	196
Houes asines	129	434	912	477	95	199	183	22	71
Semoir monorang	864	35	457	1,307	425	29	3	13	0
Charrettes bovines	2,816	3,056	3,631	3,953	1,959	1,508	355	851 (4)	315
Charrettes asines	1,686	1,869	2,092	2,564	731	743	160		802
Uree (tonnes)	2,466	1,999	4,093	3,493	2,568	2,726	3,835	2,995	2,071
15-15-15 (tonnes)	581	991	1,609	1,772	1,404	2,136	2,503	2,232	1,754
Super Phos. simple (t)	1,077	4,313	4,786	6,999	3,285	3,823	530	415	1,581
Super Phos. Triple (t)	605	285	353	681	299	47	1,584	764	256
Phosphate Tahoua (t)	0	607	92	666	800	730	487	11	13
14-23-12 (tonnes)	25	236	96	35	7	1	7	1	0
TOTAL ENGAGÉS MAJEURS	4,754	3,431	11,029	13,646	8,763	9,463	8,946	6,418	5,680
Fongicides 25gr	543,579	1,698,737	2,716,305	1,372,753	1,607,552	1,874,578	897,642	705,880	728,690

(1) Source: "Evaluation Interne Volet Approvisionnement en Intrants Agricoles, Projet Appui à la Production Agricole". République du Niger. MRE/PON. 1988.

(2) Charrues 10" et 3" ensemble.

(3) Canadiens 5 et 3 dents ensemble.

(4) Charrettes bovines et asines ensemble.

(5) Source: "Subvention Globale aux Intrants Agricoles Pour la Campagne 1986/87. République du Niger. UNC/CA. 1988.

there have been many complaints about the quality of such supplies. Settling this issue would require additional research.

In terms of farming tools, there has been some responsiveness to the needs of users, especially at the Tahoua workshop, where new products (fencing, gardening tools) have been manufactured. In addition, experimentation has continued on animal traction prototypes at Ndounga. For the majority of farm equipment, however, the continuation of the "vente promotionnelle" has inhibited any gains in design.

3. Inputs production and supply by the private sector/cooperatives

The increase in fertilizer user prices combined with a major exogenous factor (continued devaluation of the naira on the parallel market) contributed to gains in fertilizer market share by the private sector.

In addition, measures to help private sector suppliers by easing fertilizer import procedures have been taken in the Maradi department. The Maradi rural development project has also been promoting cooperative fertilizer banks, supplied by private traders. Aside from this particular instance, however, meaningful involvement in input production/supply by cooperatives has been very limited. Fertilizer and crop protection chemicals are indeed stored in the cooperative warehouses, but cooperatives do not own the warehouses, cannot provide for depreciation or maintenance, and have no financial incentive to handle and account for inputs, or to provide accurate information on requirements⁶. Given their current legal, financial and managerial status, cooperatives in general will not be able to assume input production, supply or marketing until quite some time in the future. Transferring the CA to the UNC (a state supported and controlled entity which supposedly speaks on behalf of cooperatives until the time they are sufficiently organized to do so themselves) can have little significance in the short or medium term.

Finally, there are several projects which train and equip rural artisans, blacksmiths, cartwrights. They certainly sprung up in response to the same constraints ASDG was meant to address, but their connection with the sector grant is tenuous at best.

III. ASSESSMENT OF POLICY REFORM IMPACT

It is useful to keep in mind the statement of anticipated program benefits, from the grant agreement:

"The policy changes relating to subsidies and the input supply system should result in more inputs being made available to farmers. To the extent that the use of more inputs leads to increased production, the policy changes contribute to agricultural production. The beneficiaries of these policy changes will be farmers whose demand for agricultural inputs the Centrale d'Approvisionnement could not satisfy formerly because it could not deliver the necessary

⁶ The role of the private sector and cooperatives is discussed in greater detail in the chapter dealing specifically with this area of policy reforms.

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inputs due to the excessively high subsidy level and the execution problem inherent in the present inputs supply system. A majority of these beneficiaries are subsistence farmers in the various productivity project zones of the seven departments. The number of farmers who would benefit from this is estimated at about 500,000."

A. Macroeconomic Impact

1. Fertilizer

For fertilizer, the primary effect by main group has been determined mostly by the evolution of relative official/parallel market prices. Improvements in delivery systems, either through better management of the CA for the public sector or gains in private sector efficiency, are also considered.

For almost two decades public and private fertilizer systems have coexisted and interacted in Niger. Nigeria's considerable subsidies on fertilizer production, and its scale of production and use (1.3 million tons in 1985) have assured it of a large share of the Nigerien market (at least 50% of total consumption). Furthermore, even fertilizer officially distributed by the Nigerien government was coming mostly from Nigeria up to 1983.

The situation up to 1983 can be summarized as follows:

The private sector supplied Nigerian fertilizer to farmers in southern areas of Niger, where demand was seasonal and variable from year to year, but relatively strong. The private sector also supplied the CA which delivered fertilizer to other areas of Niger. The CA price was, even with state subsidies, never below the Nigeria free market border price, and it was de facto non competitive in many southern areas. In fact, the respective private sector/CA shares of the domestic fertilizer market were established by relative prices. Nigerian fertilizer handled by the private sector penetrated northward from the border area up to points where transport costs brought it up to the CA price level. With a devaluation of the Naira, or an official increase in CA prices this 'horizontal line' would reach further up, and the private sector share of the market would grow.

The size of the Nigeria fertilizer market is such that in the areas where Nigerian fertilizer was lower priced than the CA's product there was a virtually infinitely elastic supply, priced primarily on the basis of transport costs from the border. The subsidy-induced input supply constraint invoked in ASDG design therefore applied only to areas north of the "Nigerian zone of influence", where the CA was the major supplier.

After 1984, however, Niger switched from CA purchases of Nigerian fertilizer to donor-supplied inputs. This practically eliminated the need for a CA appropriation, partially shifted the responsibility for subsidies to donors, and provided a measure of insurance against a possible drastic change in supply conditions for Nigerian fertilizer.

To the extent that the reduction of direct subsidies was not entirely matched by gains in delivery system efficiency, they resulted in higher user prices, the relative price advantage of

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Nigerian fertilizer increased, and CA sales were bound to lose ground. Table 3 on the next page shows the evolution of official fertilizer use in Niger from 1966 through 1986.

The following is what we believe happened:

■ The relative market share of the CA decreased, and since demand for fertilizer is quite price elastic, total revenue from fertilizer sales fell (increase in unit price did not make up for decrease in quantity demanded). The decrease in official fertilizer sales is therefore partly due a loss of CA market share and partly to an absolute decrease in demand;

■ This loss of geographic market share also meant that the CA found itself supplying more marginal areas, which raised its average delivery costs per unit of fertilizer;

■ The relative share of the private sector increased;

■ There was no impact on fertilizer users in southern areas;

■ There was a loss in consumer surplus for fertilizer users in areas 'vacated' by the CA and taken over by the private sector;

■ There was a decrease in the subsidy to fertilizer users in areas where the CA remained the dominant supplier.

Macroeconomic and budgetary impact:

A great deal of the economic analysis presented below is based on increases in fertilizer prices related to ASDG policy reforms. Although the general conclusions we arrive at pertain to all crops, the size of the actual impact depends on changes in relative input/output prices. The following table presents the evolution of official prices since 1982/83 for paddy and cotton, the only two crops for which there is both significant fertilizer use, and a high proportion of officially marketed production:

	1982	1983	1984	1985	1986	1987
Paddy	85	85	90	90	70	71.5
Cotton (1st choice)	120	120	120	130	130	110

In the context of competition against Nigerian supplies, the budgetary effect was negative because with higher user prices, the CA lost some fertilizer market share. The proceeds from donor-supplied fertilizer were therefore diminished both through reduced sales, and because the CA found itself relegated to areas where the average distribution cost per unit of fertilizer was higher than it used to be. Furthermore, CA stocks in areas now taken over by the private sector would have to be sold at a loss, or moved to other regions.

FNUT.WR1

OFFICIAL CONSUMPTION OF FERTILIZER OVER TIME
(IN TONS OF FERTILIZING N,P,K UNITS)

	N	P2O5	K2O	TOTAL
1966/67	120.0	82.0	36.0	238.0
1967/68	159.0	90.0	46.0	295.0
1968/69	151.0	77.0	27.0	255.0
1969/70	207.0	85.0	54.0	346.0
1970/71	72.0	74.0	29.0	175.0
1971/72	133.0	82.0	37.0	252.0
1972/73	212.0	115.0	76.0	403.0
1973/74	220.0	100.0	70.0	390.0
1974/75	80.0	63.0	14.0	157.0
1975/76	287.0	290.0	54.0	631.0
1976/77	558.0	529.0	65.0	1,152.0
1977/78	963.0	990.0	129.0	2,082.0
1978/79	745.0	865.0	71.0	1,681.0
1979/80	764.0	892.0	148.0	1,804.0
1980/81	808.0	1,020.0	122.0	1,950.0
1981/82	1,522.0	1,796.0	213.0	3,531.0
1982/83	1,186.0	1,644.0	106.0	2,936.0
1983/84	1,547.1	1,362.1	320.4	3,229.6
1984/85	2,101.2	1,380.5	375.5	3,857.2
1985/86	1,682.6	773.1	334.8	2,790.4
1986/87	1,195.1	703.4	263.1	2,161.5

NOTES: N= 45% Urea + 15% 15-15-15
P= 15% 15-15-15 + 20% SSP + 46% STP
+ 35% NP Tahoua
K= 15% 15-15-15

SOURCES: Up to 1982/83, IFDC, DEC. 1984
From 1983/84, C.A.

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Due to the increase in user price for fertilizer and loss of market share by the CA, the global amount of foreign exchange spent on fertilizer from Nigeria increased.

Efficiency in resource allocation:

Because of the CA's loss of market share, the basis for allocation of fertilizer over Niger increasingly becomes the delivered cost of Nigerian fertilizer. We consider this the correct short-term shadow price for the resource.

Maximum potential proceeds to the counterpart fund would prevail if the CA sold fertilizer by aligning its price on the delivered cost of Nigerian fertilizer⁷. To the extent that the CA maintains a share of market by undercutting Nigerian fertilizer, there is a direct user subsidy exactly equal (i) to the difference between the CA price and the local cost of Nigerian fertilizer which would otherwise prevail, and (ii) to foregone counterpart fund proceeds. This is also a good measure of the distortion introduced into resource allocation by keeping the CA in business. Therefore, the policy reform had a positive resource allocation impact.

Efficiency in distribution:

Because of the CA's loss of market share, more fertilizer is being distributed by the private sector (Nigerian fertilizer). To the extent that the private sector is more efficient than the CA there is a definite economy of domestic resources.

2. Farm implements**Budgetary impact:**

There has been no ASDG-induced budgetary impact because the policy reform of gradually removing direct subsidies from farm equipment has not been implemented. Equipment has been sold over the last thirty months through the "vente promotionnelle".

The GON did switch from a system of global appropriations for workshops to partial donor support (ILO/FAO in Tahoua) and to the manufacture of profitable goods (fencing, gardening tools, metal furniture). Although some of these changes are quite encouraging, they are more directly related to pressing budgetary constraints than to a fundamental shift in policy.

Resource allocation:

The original ASDG resource allocation argument was that even well-designed implements may lead to inefficient resource allocation if their supply is limited by the amount of state subsidy. In such a case, excess effective demand at prevailing prices would indeed reveal a supply constraint due to a subsidy appropriation.

⁷ The most efficient way of maximizing counterpart fund proceeds would actually be to sell donor-supplied fertilizer to the private sector on a tender and bids basis.

This type of inefficiency, however, did not apply in the case of Niger. The main problem with most implements is clearly that they were badly designed: after thirty months of "vente promotionnelle" only about a third in value have been sold; this cannot be attributed solely to credit constraints⁸.

There may have been some recent efficiency gains due to better implement design. However, it seems that the most significant improvements in the use of scarce materials were due to a shift in production to goods for which there was strong demand (fencing, gardening tools). Here again, the direct link to ASDG is tenuous.

Returning to the issue of subsidies for a moment, we note that, as it turns out, a real increase in user prices for implements would have had the counterproductive effect of overvaluing the assets of workshops, thus maintaining the state's ability to go on producing inadequate implements.

Efficiency in distribution:

ASDG-related gains in efficiency of input distribution would have to come about through a greater involvement of cooperatives and private sector entrepreneurs. There is no evidence that this has taken place so far.

3. Crop protection chemicals

Global responsibility for procuring and delivering crop protection chemicals has been turned over to a specialized agency of the Ministry of Agriculture. Here too, the GON abandoned the national budget appropriation approach in favor of donor-supplied chemicals, spraying equipment, airplanes, vehicles, training, etc.

As far as we can tell, there has been virtually no budgetary or resource allocation impact from ASDG through crop protection chemicals.

B. Net effect by main group

1. Rural households on irrigated perimeters

Large-scale modern irrigated perimeters followed by ONAHA cover almost 11,000 hectares, over half on the Niger river. Production includes mostly rice, but also sorghum, onions, wheat and cotton. ONAHA perimeters absorb about half of all fertilizer handled through official channels in Niger. Although there are private sector inroads, riverine perimeters are still mostly supplied by the CA, so that the impact of price increases can be sizeable. Part of this increase may be offset by the fact that some paddy is bought from these farmers at official prices, but the rest of their rice, and other irrigated or non-irrigated crops on which they apply fertilizer, are traded at free market prices.

⁸ On the appropriateness of farm implements and technical packages, see "Evaluation des Themes Techniques en République du Niger", Ithaca International, December 1983.

Non riverine perimeters

Small-scale irrigation is carried out on an estimated 70,000 hectares, for traditional rice, cotton, onion and off-season vegetable production. Because of its location in southern areas of Niger, we estimate that virtually all fertilizer (as well as pumps and fuel) applied to these high-value crops is supplied by the private sector. The impact of official fertilizer price increases on these farmers was therefore negligible.

2. Rural households in higher rainfall areas

Relative to other regions of Niger, producers located in the southern parts of the Dosso, Maradi and Zinder departments benefit from two factors; higher and more predictable rainfall, and proximity to Nigeria, a considerable factor and products market (fertilizer, cowpeas).

Significant decreases in fertilizer demand by farmers in the Maradi rural development project area between 1977 and 1983 prompted a study* to estimate private sector supply. The report concluded that about 80 % of fertilizer used (over 3,000 tons) were purchased on the parallel market. When we consider the fact that the better part of fertilizer officially distributed to farmers by the project (the other 20% so to speak) was bought from local traders, we realize that due to its lower price fertilizer from Nigeria dominates the Maradi departement market. There is recent evidence that cooperatives in the Maradi departement are now dealing with private traders on a relatively large scale. (growth in the Maradi project's Banques d'engrais program from 2 pilot villages in 1986 to over 80 functioning banks in 1987.

In this case also, we believe that the impact of fertilizer price increases on farmers in these areas was negligible.

3. Rural households in lower rainfall areas

In these areas, farmers have to contend with harsher ecological conditions, higher input prices and fewer marketing opportunities. Fertilizer use in such areas has traditionally been low; the productivity of phosphate fertilizer applications being such that at 1986 input prices millet should have been worth at least 135 CFA/Kg to provide a safe margin of incentive to farmers¹⁰.

As in the case of riverine perimeters, these are typically the areas where the CA is the major supplier, so that official price increases were passed on to users. Contrary to perimeters, however, productivity and output prices are low, so that the fall in fertilizer demand and the impact on farm income must have been proportionally largest.

9 Ministère du Développement Rural, "Niveau de Consommation et Formes d'Utilisation des Engrais Minéraux dans la Zone d'Intervention du Projet". PDR Maradi, 1984.

10 FAO/Landez in "Retrospective Study of Fertilizer Supply and Demand in Niger", Ministère de l'Agriculture, DEP. 1986.

4. Large traders

Large traders, in the Dosso, Maradi and Zinder departments have traditionally been involved in large-scale fertilizer supply to government agencies and projects. This fertilizer came from Nigeria. In 1982, for instance, large traders delivered 11,120 tons of fertilizer to the CA, and up to 85% of fertilizer distributed to farmers by the Maradi rural development project was procured from Nigeria through traders. Since 1984 some large Maradi traders have supplied Nigerian fertilizer (urea and super single phosphate) to Mali and Burkina Faso. Official transit shipments ranged from 500 to over 600 tons per year.

In the early years of the Dosso rural development project at least one trader realized considerable profits (several hundred millions FCFA) by supplying the project with Nigerian fertilizer at world market prices. The Centrale d'Approvisionnement, however, purchased fertilizer imported from Nigeria by large traders through a more efficient tender and bids system.

Although increased fertilizer grants from donors have displaced private suppliers to the CA, they are still active. The seed multiplication centers absorbed nearly 1,500 tons in 1985, and 2,000 tons in 1986.

Large traders have felt a negative impact through the increased GON reliance on donated fertilizer as opposed to large scale open market purchases, but this is not directly ASDG related. On the other hand, the ASDG induced official price increase, combined with the exogenous devaluation of the naira, expanded their potential market. However, the gain must have been relatively modest. In the best possible case, losses in CA sales over the last two campaigns for which we have data (1985 and 1986), were completely offset through increased sales by the private sector, but this represents only 2,000 tons or so per year. Finally, we do not know the extent to which this potential market was divided between large and small traders.

5. Small traders

Small traders were not involved in large scale deliveries to the CA or other large clients, so that the GON's shift to donor-supplied fertilizer had little effect on them.

We believe most small traders are active in southern areas of Niger where demand for fertilizer is most predictable and strongest. We made the point before that the ASDG related fertilizer price increase had no effect on these areas since CA fertilizer was not competitive there in the first place. For the better part of their sales, therefore, the decrease in direct subsidies had no impact.

However, to the extent that ASDG reinforced the trend toward liberalization of input supply, particularly in the Maradi Department, small traders as a group, and the economy in general benefitted from gains in market efficiency (lower transaction costs, increased competition).

In the case of areas where user price increases made Nigerian fertilizer more competitive than the CA products, the gain in

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private sector share of the market must have accrued almost entirely to small traders.

IV. CONCLUSIONS

A. Assessment of the Economic Rationale

ASDG designers correctly identified the agricultural inputs purchase or manufacture-delivery complex as a major constraint to rural sector development in Niger.

However, the complex, multi-faceted issues related to agricultural inputs were eventually translated into only two types of conditions precedent in the grant agreement, one of which was inconsequential in the short term (transfer of the CA to the UNC), and the other highly skewed in its impact because it addressed only direct subsidies. Reductions in indirect subsidies (through better input design and overall system management) were not integrated¹¹.

In retrospect we see that the classic economic arguments were basically sound, but applied differently to various types of inputs. The rationale even applied differently to the same input depending on the specific context in which it was traded and used.

In general, the extent to which limits on GON budget subsidies constituted major supply constraints was overemphasized:

There was no fertilizer constraint in the areas of the country where Nigerian fertilizer dominated, or on the perimeters, considered priority areas by the GON. There may have been a slight supply constraint in northern, rainfed areas where the CA dominated. In any case, this argument became moot as of 1986.

The supply constraint argument probably applied best to crop protection chemicals, especially those applied to cotton. The problem there was compounded by a larger factor: a very high producer price leading to annual losses often exceeding global appropriations to all input subsidies.

For implements, the real supply constraint was inappropriate design, largely due to the centralized and inefficient management of the workshops; this still applies to a large extent.

The resource allocation argument was cogent, and applied directly to crops traded at free market prices, but for major input-using crops (rice and cotton) the setting of official producer prices can nullify any action on input prices.

In the case of implements, the resource allocation problem was much more related to design than to direct subsidies on user prices.

¹¹ There was on the one hand a desire to have this happen under ASDG related project activities, and on the other a failure to recognize that direct subsidies can be reduced in the short term while indirect ones require a much longer period.

B. Assessment of Implementation

In terms of implementation, we first note that exogenous factors (GON reliance on donor-supplied or financed inputs and the continued devaluation of the naira on official and parallel currency markets) had a major positive impact on two key variables: the national budget and input supply constraints.

The second noteworthy point is that some institutional measures taken by the GON sharply limited the reduction in direct subsidies (transfer of chemicals to the DPV, sale of all implements at "vente promotionnelle" price over thirty months). As far as farm implements are concerned, however, an increase in official user prices would have been futile at best and possibly counterproductive. Effective reduction in direct subsidies therefore only applied to fertilizer.

Thirdly, decreases in indirect subsidies, which have always been a much greater loss to the economy than direct ones, have been very modest. Yet, the decentralization of inputs (fertilizer to the CA, chemicals to the DPV, implements to the workshop) was a very positive step. Also, gains realized by the private sector on fertilizer, gardening tools and small pumps were sizeable, although not attributable only to ASDG.

The fourth point is that some other institutional measures taken in response to ASDG are meaningless in the short term.

A transfer of the CA (and of the workshops) to the "cooperative movement" through the UNC is not meaningful in the short or medium term. They are not in "transferable" condition, and the cooperative movement has neither the incentive nor the resources to take them over.

By the very nature of its infrastructure and mandate, the CA cannot fairly compete with the private sector; they will have to share the domestic fertilizer market according to their respective prices and market orientations.

The GON has definitely come to terms with the fact that the private sector has a role to play in agricultural inputs, but they will retain through the CA some political control over the sale, distribution and proceeds from donated fertilizer.

C. Distributional Impact of ASDG Agricultural Input Reforms

As we noted previously in this chapter, there was a considerable gap in scope and level of detail between policy reform orientations prescribed in the PAAD and conditions precedent spelled out in the grant agreement. This led to an undue emphasis on the more "manageable" or easily verifiable aspects of policy reforms, gradual removal of direct subsidies. To the extent that these were not matched by a commensurate reduction in indirect subsidies (through better management and efficiency in the whole input complex) the burden of adjustment was placed on certain groups:

- farmers on riverine irrigated perimeters.
- farmers in lower rainfall, marginal areas.

COOPERATIVES IN FACTOR AND PRODUCT MARKETS

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POLICY REFORM AREA: THE ROLE OF COOPERATIVES IN FACTOR AND PRODUCT MARKETS

This chapter deals only with policy reforms associated with cooperatives because the role of the private sector is covered in other chapters of this report. Only cereals are included in the discussion of product markets.

I. DESCRIPTION OF THE POLICY RATIONALE

The intent of ASDG cooperative policy reform was to encourage cooperative participation and promote efficiency in the supply of agricultural inputs, and in grain storage and marketing.

ASDG designers recognized that cooperatives require incentives to participate in factor and grain markets. The major incentive identified was liberalization of the economic and legal environment in which cooperatives must operate.

A. Problems

The main constraints to progress may be summarized as follows:

- Official policies hinder rather than promote private trade and business, including that carried out by cooperatives;
- Government regulations combine with thin capital markets to concentrate economic power;
- Cooperatives were created by government fiat with constraining statutes, are void of capital, motivation and management skills, and are manipulated by local elites;

B. Solutions

Policy reform was to take the following orientations:

- Encourage the evolution of cooperatives as grain marketing and storage intermediaries and as agents for input delivery (Grant Agreement);
 - Locate financial responsibility at the GM level with contracting power and borrower status (PAAD);
 - Make membership more flexible and voluntary so members develop an affinity towards the cooperative (PAAD);
 - Promote a wider and more flexible approach to legal cooperative activities (PAAD);
 - Institute immediate and drastic sanctions for non-reimbursement of credit (PAAD).
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The assumptions critical to the success of cooperative policy reform included:

- The GON continues its commitment to develop self-managed cooperatives (PAAD);
- The response from cooperatives ensures competition in the marketing of agricultural inputs and outputs (PAAD).

II. POLICY REFORM EXPERIENCE

The primary objectives for promoting cooperative cereal marketing were (i) to decrease OPVN recurrent costs due to large centralized security stocks, and (ii) to decrease the delivery costs of security stocks in times of food deficits.

Secondary objectives included (i) stabilization of local grain prices, and (ii) cooperative participation in grain marketing.

A. Conditions Precedent

The single condition precedent from the grant agreement states:

"Taken appropriate measures to further the promotion of village level grain storage through arrangements with cooperatives or GMS as intermediaries (notably the development of cereal banks)".

The monitored indicators of compliance and impact of cereal banks included the level of cereal bank stocks (objective: 6000 tons) the levels of GON village stock programs, and a study of the economic viability of cereal banks.

B. Actual Implementation

Although there has been no use of the counterpart fund for such purposes, the GON has promoted the growth of village grain stocks through (i) constitution of a "Stock de Reserve" and (ii), donor-funded cereal bank programs.

1. Stock de Reserve

The "Stock de Reserve" resulted from a 1985 decision by the Conseil National de Developpement (CND) stipulating that each taxable individual contribute 10 kg of grain to a village stock. The purpose was to promote food security in rural areas and to provide against shortfalls in grain availability, such as occurred after the 1984 drought. A complementary economic objective was short-term stabilization of grain prices.

On the basis of a survey by the Ministry of Agriculture's Statistics Service the total amount contributed to the stock was about 17,000 mt⁴. Since the initial survey there have been no follow-up studies on the stock's evolution. It is likely that any stocks remaining after the mediocre 1986 harvest were consumed. We

1. "Results of Analysis of the Enquête Stocks Villageois". April, 1986. Ministry of Agriculture. DEP/SA. Niamey, Niger.

do know that some villages used the reserve stocks to constitute a start-up stock for cereal bank projects².

2. Cereal Banks

In most cases, start-up stocks for cereal banks are provided by the World Food Program (WFP). Cereal bank projects are administered by the International Labor Organization (Maradi and Zinder) or by regional development projects (Maradi, Keita and Tahoua). The initial stock is calculated to cover 10% of cooperative or GM food needs for the "soudure" period (June-September). Table 1 indicates 1986-87 stock levels for the four major cereal bank programs in Niger.

Cereal bank development is organized through the UNC system; all decisions related to stock management are under the control of the cooperatives or GM.

Distribution of cereals to bank members is on a in-kind basis. An executive committee decides when stocks are to be released. In-kind recuperation of stocks after harvest is accompanied by an interest rate which varies between 25-50%. Interest payments are meant to cover operational expenses and contribute to the growth of the stock.

The overall goal of the cereal bank program is to gradually increase grain stocks to cover 100% of cooperative or GM cereal requirements for the "soudure".

In the event that cooperatives or GM possess surplus stocks (possible under conditions of two or more good consecutive grain harvests), or need to rotate stocks, they are free to decide when to market surplus and to set prices.

Implementation experience of the cereal bank program is assessed with respect to the program's own objectives: self-management of community resources, food security and grain marketing, price stabilization and rural incomes.

a. Self-Management of Community Resources

The cereal bank study³ found that bank members view stocks as under their complete control. They do in fact exercise sole decision making power over the management of the cereal bank.

b. Food Security and Grain Marketing

In deficit years, stock replacement is naturally low. In subsequent surplus years, replacement rates are high and stock levels return to previous levels because farmers pay back both past and current grain loans. Although overall growth in stocks has been slow farmers recognize a need to maintain a village security stock.

Experience from the ILO/Maradi project shows that farmers replace depleted cereal bank stocks, but first reconstitute

2. For a complete description and analysis of cereal bank programs see "The Contribution of Cereal Banks to Food Security and Price Stabilization in Niger". 1987. Ministry of Agriculture. DEP/SA. Niamey, Niger.

3. Ministry of Agriculture, op.cit. 1987.

COOPERATIVES IN FACTOR AND PRODUCT MARKETS

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Table 1. Evolution of Four Cereal Bank Programs
1982-1987

Program	Year	Number of Banks	Total Stocks (mts)
Maradi/ILO	1982	12	214.7
	1983	14	305.8
	1984	18	410.8
	1985	25	232.6
	1986	37	604.7
	1987(1)	-	-
Keita/PIK	1984	14	260
	1985	14	286
	1986	14	343
	1987(1)	-	-
Tahoua/PP	1984	7	57.8
	1985	11	214.7
	1986	18	206.6
	1987	35	480
Zinder/ILO	1985	7	100
	1986	10	264.2
	1987	19	304.2

(1) 1987 figures unavailable.

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private household stocks. They view cereal banks as a means of providing for food security, but not the only means.

Stock growth partially depends on whether cereal banks can purchase and sell cereals to take advantage of temporal and regional differences in production. This requires better access to capital, and to information on grain markets and prices.

c. Price Stabilization and Rural Incomes

The level of stocks determines the length of time members can avoid higher parallel market prices in years of deficit production. To date, stock levels have only been sufficient to offset price increases for 3-4 months. Cereal banks have thus mostly served to protect rural incomes rather than increase them.

C. ASSESSMENT OF POLICY REFORM IMPACT

1. Macroeconomic/Budgetary Impact

We believe the overall macroeconomic/budgetary impact is insignificant because in the best of cases, village level storage would progressively replace central storage, yet both are being financed by donors anyway. There may be saving only to the extent that a GON counterpart is provided in each case, and that it is lower per ton stored at the village rather than at the central level.

Furthermore, a major conclusion of the cereal bank study relates to their scale and impact. ASDG designers implied that a national system of village level storage (e.g. cereal banks) can reduce the costs of maintaining national food reserves. However, neither the actual size of cereal bank stocks (as of 1987 about 1,700 mt), nor the envisioned goal of 6,000 mt, are sufficient to substantially affect potential GON budget outlays for maintaining a security stock of 80,000 mts.

2. Foreign Exchange Impact

The same principles apply; there can be a foreign exchange saving only if village level storage is less foreign-exchange intensive than central storage. The only significant savings in foreign exchange will not come about through storage practices, but through an increase in domestic production reducing imports of grain from Nigeria.

3. Impact on Resource Allocation

Cereal banks could eventually influence donor allocation of resources for grain purchases and storage. To the extent that cereal bank stocks grow, donors could spend less on purchasing and maintaining security stocks and reallocate financial assistance to more productive investments. From the donors perspective, the impact of cereal banks is potentially positive. Thus far the low level cereal bank stocks have had no impact on donor assistance to OPVN.

4. Net Effect by Main Group

a. Grain Deficit Rural Households

Cereal banks have made a positive contribution to short-term food security on a geographically small scale. Likewise, by having access to cereal bank stocks, farmers temporarily avoid local price increases for grain. Cooperative officials in the Tahoua Departement confirmed that cereal bank stocks helped prevent increases in local grain prices during the 1987 soudure.

By serving as an alternative to potentially high parallel market prices cereal banks have had a positive, although temporary, impact on rural incomes. The impact is more positive for lower-income households.

b. Grain Surplus Rural Households

Cereal banks have no impact on grain surplus households. Surplus households do not require cereal banks for food security or price stabilization. To the extent that cereal banks may be future competitors in local grain markets, there may be a negative income impact on surplus households.

c. Traders

There can be a negative impact on grain traders through loss of demand, or lower prices and interest rates. This has been minimized by low cereal bank stock levels. However, in areas where cereal banks operate, traders have been forced to store grain for longer periods and have incurred higher storage costs. Alternatively, they have been forced to find new markets for quick stock turnover.

Cooperatives still have considerable marketing problems and are rarely strong competitors on grain markets. However, there are some encouraging signs: in a pilot program implemented through the ILO/Zinder project cereal banks sell grain to cooperative boutiques in the pastoral zone. There is also a program (Afrique Verte) in which cooperatives barter paddy for millet.

d. Urban Consumers

The village level cereal storage program has had virtually no impact on urban consumers. Cereal bank stocks have only been sufficient to provide temporary food security and price stabilization for rural households. Cereals furnished by private traders and OPVN still dominate urban markets.

III. COOPERATIVE SUPPLY AND MARKETING OF AGRICULTURAL INPUTS

A. Conditions Precedent

The ASDG grant agreement states two conditions precedent to achieve a cooperative based input supply agency. These are:

"Taken appropriate measures to the develop the Agricultural Input Supply Agency (Centrale d'Approvisionnement- "CA") toward a cooperatively owned input supply entity in competition with other merchants and traders in the private sector";

"Taken appropriate actions to make the CA move closer to being an autonomous cooperatively owned entity and ensured the existence of competition between the CA and private traders by not granting the CA a monopoly, de jure or de facto, in the supply of inputs."

A crucial question is whether these conditions precedent are necessary and sufficient to guarantee efficient cooperative participation in input supply. The conditions precedent provide the necessary legal framework for cooperative participation in input delivery and ensures that the CA will operate on a competitive basis with the private sector.

Although the conditions precedent are necessary first steps, they are not sufficient to guarantee that a more efficient input supply system will emerge. They do not solve the UNC's financial and management problems which prevent it from successfully incorporating the CA into its activities nor increase the ability of the UNC to effectively compete in input supply markets. As noted in a recent GON evaluation of the CA:

"Efforts to increase efficiency in the supply system for agricultural inputs have not given sufficient attention to the development of a competent cooperative management system. Given that the cooperatives and GM have not attained a level of organization and management as true rural 'enterprises' at the service of their members, it is very risky to incorporate a centralized input supply service (into the cooperative system) with a profit making capacity".

The same document goes on to state:

"The impact of the evolution of the CA towards a (cooperative) profitable enterprise is limited by a certain number of fundamental constraints, such as;

- the method of transfer and delivery of inputs;
- price policies;
- the lack of autonomous decision making;
- the lack of capital;
- the absence of agricultural credit; and,
- the lack of a marketing and diversification strategy"⁴.

B. Actual Implementation

Implementation of the conditions precedent is discussed from two perspectives. First, the fulfillment of the legal requirements for the transfer of the Centrale d'Approvisionnement (CA) to a cooperatively owned input supply agency. Second, the statutes which govern the activities of the new input supply agency.

4. "Evaluation Interne Volet Approvisionnement en Intrants Agricoles Projet Appui à la Production Agricole". Janvier, 1988. République du Niger. Ministère de l'Agriculture et de l'Environnement. Programme Cerealier National. Our parentheses.

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A GON Decree of June, 1987 legalizes the transfer of the CA to the Union Nationale des Cooperatives (UNC)⁵. The major components of the Decree are:

- The State cedes to the UNC the CA's land, buildings, furniture, rolling stock, as well as material stocks and agricultural products which are not subject to reimbursement through counterpart funds;
- The State assumes the past debts of the CA;
- The UNC will assure the elaboration of new CA Statutes which will allow the CA autonomous management.

The UNC, in collaboration with other GON officials, has drafted new statutes for a "Centrale Cooperative d'Approvisionnement (CCA)."⁶ The statutes define the CCA's constitution, objectives, administrative authority and structure, guidelines for cooperative ownership of the CCA, and the CCA's fiscal and accounting procedures. However, the CCA statutes have not been reviewed by the Conseil des Ministres and the CCA continues to receive its legal authority from the 1984 GON Ordinance which establishes the cooperative system. In other words, the CA is operating under procedures defined by its old statutes.

One particular aspect of the proposed new CCA statutes is incompatible with the ASDG objective of creating a cooperatively owned input supply agency that does not have a "de facto" monopoly. According to the section concerning the fiscal status of the CCA, the CCA is exonerated from the payment of a host of administrative taxes, licenses and import duties. Although one could well argue that the exonerations do not give the CCA a monopoly per se, they do give it an advantage over private traders who must pay these costs.

In a more general sense it can be strongly argued that the proposed CCA is not really "autonomous" in the sense that it has sole decision making power over its activities and resources. For example, included in its objectives, the new CCA statutes continue to emphasize its role in importation and distribution of agro-chemical products, the promotion and extension of agricultural inputs in rural areas, participation in the development of national fertilizer resources, and the definition of a national strategy for input supply. Without the autonomy to decide which activities it will engage in, and therefore the management of resources at its disposal, it is doubtful the new CCA can be efficient.

C. Assessment of Policy Reform Impacts

The transfer of the CA to the cooperative sector has only been a paper transaction. The "sufficient" conditions which would allow a cooperatively owned CA "to compete with other merchants and traders in the private sector" are not specifically addressed in the ASDG.

5. See: "Arrête no. 0016/MDPM/CTEP/SEM du 23 juin, 1987. Portant transfert de la Centrale d'Approvisionnement à l'Union Nationale des Cooperatives (UNC)".

6. See: "Projet Des Statuts de la Centrale Cooperative D'Approvisionnement" Mars, 1987. Ministere de l'Agriculture. Republique du Niger.

The proposed new statutes for the CA do not provide for an "autonomous" input supply agency. Furthermore, the new statutes give the cooperatively owned CA financial advantages over the private sector by exempting it from various administrative and import taxes. With the exception of the legal transfer of the CA to the UNC, the conditions precedent have not been implemented and the reform measures taken by GON contradict the objectives of the ASDG. Under these circumstances it is not possible to discern any impacts from policy reform implementation.

IV. CONCLUSIONS

This section summarizes problems encountered in increasing the effective role of cooperatives in factor and grain markets and suggests some solutions. Problems are discussed with respect to the original objectives in each policy reform area as specified in the ASDG grant agreement. Proposed solutions could be considered under ASDG II.

A. Cooperative Role in Grain Storage and Marketing

Objectives 1 and 2. Decrease OPVN Recurrent and Delivery Costs

The major problem encountered with cutting recurrent and delivery costs has been one of incentives. Currently, the costs of security stock storage and delivery are not incurred by the Government, but by donors. The GON has an incentive to maximize the allocation of receipts from grain sales to a general counterpart fund rather than cutting OPVN costs.

The minimum level of food security stocks for Niger has been estimated at 80,000 mt. Actual cereal bank stocks in 1987 did not equal one-fortieth of this amount, and the target level of 6,000 mt is not that much more. Whether based on actual or programmed stock levels, cereal bank stocks would not be sufficient to offset a very large proportion of OPVN recurrent or emergency delivery costs.

A possible solution would be to encourage donors subsidizing OPVN recurrent and delivery costs to stipulate that receipts from grain sales are to be used exclusively for meeting these costs. In addition, as rural cereal banks stocks grow, OPVN should make corresponding decreases in its own security stocks. Support should be given to monitoring of cereal bank stock levels and to the expansion of cereal bank programs.

Objective 3. Price Stabilization

Although it had a positive impact, price stabilization has been achieved only in the short-term and only in villages where cereal banks exist. The problem in promoting longer term and more widespread price stabilization is due to the slow growth in stock levels caused by unfavorable climate and deficit production in some years.

Short term price stabilization can be attained over a geographically larger area by promoting the expansion of current cereal bank programs. Longer term grain price stabilization will require increases in grain production, processing and storage technologies.

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Objective 4. Promote Cooperative Participation in Grain Marketing

This policy approach suffers from trying to tackle at the same time constraints paralyzing cooperatives, and obstacles to cereal trading in general. Consequently, although the goal is worthwhile, the impact has been limited so far.

Possible solutions will be closely connected to continuation of efforts to improve market efficiency, reporting of market conditions and prices, and the development of credit instruments. One should also support the expansion of activities like the ILO/Zinder cereal bank project and Afrique Verte which promote cooperative based marketing channels.

B. Cooperative Supply and Marketing of Agricultural Inputs

There are two problems in attaining the efficiency objective as envisioned under the ASDG.

First, the ASDG conditions precedent assume that (i) the CA is an agency the UNC wants to incorporate, and (ii) that the UNC has the skills to efficiently manage an input delivery service. Neither of these assumptions are true. The UNC has pretty much been forced to accept the CA (it did so only after the GON assumed all past CA debts), and the UNC itself does not yet have the capability to effectively manage the CA.

Second, the new CA statutes give the CA and UNC very little autonomy in decision making.

Future conditions precedent and program outputs should be linked to the following actions:

- improvements in the stock and financial management capability of cooperatives participating in the input delivery service;
- cooperatives given complete autonomy in determining which inputs they will handle, what will be their source of supply, and input price levels. A credit mechanism should be established whereby cooperatives have access to capital for financing input purchase and delivery costs.

A complementary and essential activity to promote better cooperative management will be to continue the CLUSA cooperative development project.

OVERALL CONCLUSIONS

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I. ASDG Rationale and Approach

A. Macroeconomic Stabilization

The local currency fund was to help relieve Niger's budgetary and balance of payments problems without resorting to commercial borrowing which would worsen the debt situation, while safeguarding essential past and current investments in the agricultural sector.

The main features of the approach were:

- Disbursement was to take place in tranches, upon satisfaction of conditions precedent specified in the grant agreement;
- the local currency fund was to have separate budgeting and management from the rest of the investment budget;
- the allocation of local currency funds were to be governed by a set of guidelines and criteria, defined in the original grant agreement.

Although the local currency fund definitely helped relieve budget constraints, some basic issues are still not totally resolved:

- The GON apparently does not consider structurally low absorptive capacity as a major obstacle to increasing its investment budget over time. In the case of the local currency fund two-thirds of available funds were allocated to incremental activities rather than to recurrent costs.
- Separating the local currency fund from the rest of the investment budget may be necessary for accounting or management purposes, but it does little to facilitate or improve the overall efficiency of the investment budget process. Furthermore, mere separation does not solve the fungibility problem.
- Finally, does the local currency fund help Niger face the difficult issue of recurrent costs, or does it lead to a postponement of hard choices ?

B. Structural Adjustment

The ASDG policy reforms areas were correctly identified as areas of fundamental constraints to agricultural development. Policy reform objectives were therefore mostly efficiency oriented. The existing system of input provision through the CA was both a budgetary drain and a cause of inefficient allocation of modern inputs. OPVN's role in cereals marketing did not effectively stabilize or support farm prices, introduced distortions, and also contributed to GON budget deficits. Administrative and fiscal impediments to exporting livestock and cowpeas acted as disincentives to producers and traders, encouraged illicit trade, and concentrated market power in the hands of large traders.

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One must recognize that ASDG has been tackling some of the most fundamental and sensitive policy issues. Chris Hermann¹ wrote in 1985 that "performance disbursement should not be used to induce policy reform, but rather to facilitate further changes which are already underway or are likely to occur in some limited fashion".

This certainly limits the risk that policy reforms will not correspond to the host country's own objectives, and increases chances for successful implementation. It seems to us, however, that ASDG designers were definitely bolder in their undertaking, setting their policy reform sights well beyond facilitating "changes already underway or likely to occur in some limited fashion".

II. Implementation and Impact

A. Macroeconomic Stabilization

ASDG did contribute to general budgetary and balance of payments support both through actual disbursements and the fungible nature of government funds. The resource transfer financed continuation of some development activities that otherwise might have been cut (38 percent of LC spending) as well as some new investments that could not otherwise have been made (62 percent of LC spending).

However, these benefits can be offset in a number of ways. Balance of payments support may be undermined by large incremental imports (imported goods which would not otherwise have been purchased). Similarly, recurrent costs of incremental projects or incremental components of projects may contribute to GON budget deficit.

Finally, because it was handled separately from the rest of the investment budget, we doubt that funds transferred to the LC account had much direct impact on increasing absorptive capacity², improving resource allocation and consolidating investment.

B. Structural Adjustment

As envisioned, the policy reforms were eventually to stimulate and rationalize input use, encourage competition in cereals marketing, stimulate exports in cowpeas and livestock, strengthen the cooperative movement, and reduce budgetary outlays in support of parastatals.

Progress has been made but it is far from completed. Some flaws in conception have been revealed, as was to be expected in such an undertaking. Implementation has also shown that the impact of policy reforms can be limited due to a variety of factors, for example:

¹ Chris Hermann "Implementing Policy and Institutional Change through Performance Disbursement: Examples from the Philippines, Bangladesh and Niger". AID/PPC, July 1985.

² The main reason is that absorptive capacity is not strongly related to the process of selecting among investment options.

1. Some policy reform objectives were sought through inappropriate means

A transfer of the CA to the to the cooperative sector (UNC) has not and will not lead to greater involvement of cooperatives in inputs supply.

2. Some reforms have not been effectively implemented, either through lack of resources or commitment on the part of the administration, or because powerful groups with vested interests have modified their application. Specific instances include:

- OPVN has had limited success in implementing the tender and bid system. Using tenders for purchases has yet to lead to the competitive response anticipated. Sales have not yet been let out through bids.

- Nothing has been done to improve market information diffusion.

- Despite pronouncements on free trade in cowpeas and the removal of restrictions against livestock exports, considerable administrative and fiscal impediments remain.

- The promotional sale of implements has not disposed of stocks and the workshops are still not viable entities because of their debt.

3. Some of the underlying assumptions which led to specific formulations have changed

- Donor provided inputs, especially fertilizer and crop protection equipment and chemicals, have eliminated the situation where subsidies could lead to supply constraints.

4. Exogenous factors or remaining constraints have mitigated or overwhelmed any impact the reforms might have had

- The impact of official farmgate prices for rice and cotton nullified measures taken through input subsidies.

- The devaluation of the Naira on the official and parallel markets has depressed export demand for Nigerien cowpeas and livestock.

- Agricultural sector credit remains a significant constraint to increased use of modern inputs.

5. Structural adjustment is a long term undertaking; a three or four-year span is not enough to demonstrate quantum improvements.

There is another factor making policy reforms and their assessment more complex: the need to distinguish between policy orientation as such, and implementation experience. In effect ASDG was supposed to promote a shift from (a) suboptimal policies carried out by an underequipped and unmotivated administration applying a makeshift system painfully worked out over time to (b) supposedly superior policies carried out by the same underequipped and

unmotivated administration now faced with a new context and additional managerial problems.

The experience in policy reform under ASDG is disappointing only if short-run results are used as the assessment criteria. Positive though modest changes in economic environment have been achieved. ASDG reforms helped establish a more liberal economic environment in the agricultural sector. In many cases the benefits may be manifested only after the GON administration, producers and traders learn to adapt. As reforms take hold and other constraints are relieved, positive effects on agricultural production, input use, farmer incomes and trade will become evident.

ASDG has been a profitable learning experience not only to AID, but also to the GON, which has openly and seriously studied and debated issues previously not mentioned in public (official price policies, the relative efficiency of the public/private sector, barriers to economic activity. We believe that other policy oriented approaches, such as the NEPRP have been facilitated by previous ASDG experience.

Finally, ASDG has led to much closer donor coordination in key policy areas.

One of the more disturbing findings, however, is that negative impacts on certain vulnerable groups (lower income rural households, especially) can be significant, while extremely difficult to foresee.

III. Lessons Learned

The ASDG experience provides a number of specific findings as well as more general ones. Among the specific ones we include:

1. Exogenous developments such as the opening or closing of a border, or the donation of a significant quantity of inputs by donors, can change the environment so drastically that the initial measures of progress become meaningless.
2. Similarly, it should be fully expected that unforeseen and exogenous events will tend to swamp some effects of macroeconomic stabilization or policy reforms. Liberalization of exports, for example, may induce little or no change if relative prices in export markets are distorted by overvalued or undervalued currencies.
3. Official publication of a policy change can mean very little if no real attempt is made to implement the policy. In fact, proximate targets are often better stated in physical or economic terms than as the publication of administrative decrees which may have no real impact on the environment.
4. The specification of priorities for the use of a Local Currency account is no guarantee that there will be much better investment selection as long as projects are presented for funding sequentially, leaving no occasion to compare projects when allocating funds.

5. There will be considerable pressure to use the Local Currency account for the immediate needs of ongoing projects supported by USAID and by other donors.

6. Although progress has been made, The GON's overall policy analysis capability remains limited. This will continue to hinder policy reform implementation, the timely disbursement of funding tranches, and consequently, the investment process.

Among the more general lessons, we believe the following are especially relevant:

1. Policy reforms that move toward freer markets and less government involvement are unlikely to benefit disadvantaged groups in the short run. In fact, removal of subsidies that help the poor urban consumer or the poor rural producer will probably hurt these groups initially. Ways of targeting them for compensation need to be explored. It is unrealistic to seek both more economically rational resource allocations and improved standards of living for the rural poor in a time span as short as five years.

2. The ASDG experience shows once more that political economy considerations may be as important as economic efficiency with regard to implementation success. Even when policy reforms create the possibilities for net social gains, some groups may still be harmed. This is especially critical when such groups are in a position to frustrate reforms. Policy reforms should be formulated so as to create as many winners as possible, but careful analysis may identify potential losers and suggest ways to compensate inequities or encourage the goodwill of those who might otherwise resist. Two examples quickly come to mind.

a. Some large traders currently benefit from the barriers to entry inherent in the current web of administrative requirements for trade. These individuals, many possessing significant economic and political power, are sure to suffer losses as export taxes, which they often avoid, are eliminated and markets become more competitive.

b. Agriculturalists in marginal regions could lose from both input supply and cereal marketing reform. ASDG II should be sensitive to government desires to target these groups for special consideration. But rather than modify reforms to accomplish this goal ASDG II could directly finance alternative compensatory strategies such as projects to enhance productivity.

3. Finally, proximate implementation objectives such as subsidy cuts, percentages of OPVN stocks sold by tender, or amount of grain stored by cooperatives may be useful in an initial period but tend to quickly become obsolete. There should be flexibility in determining what benchmarks to use in the third and four years at least. If not, sight of the fundamental goal may be lost in seeking to achieve a target figure that is no longer relevant.

IV. Recommendations for ASDG II

A. Macroeconomic Stabilization

One of the shortcomings of ASDG I was the very limited degree to which the Local Currency account financed activities that directly supported policy reforms. Under ASDG II a concerted effort should be made to use the LC account in ways that directly and immediately help in the implementation of policy reforms.

The current local currency fund system can do little to bring about improvements in the overall investment budget process (selection of investments), absorptive capacity and trimming of recurrent costs. Yet, to Niger and AID, such measures would be equivalent to increases in counterpart funding. They can therefore legitimately be supported out of LC funds.

B. Structural Adjustment

In terms of orientation, policy reforms should continue to be broadly focused, with emphasis on changing the fundamental environment in which inputs are supplied, cereals marketed and commodities traded. The main goals should be to withdraw the state from trade in inputs and outputs, stimulate private competition, strengthen cooperatives and increase the levels of both actual and official exports.

The experience gained in phase I can be used to strengthen and refine policy reforms in phase II. It is important, however, to pursue the implementation of reforms to their fullest extent and to guard against backsliding. Phase II is needed to consolidate and entrench the reforms begun in phase I.

There are two main reasons for this:

Firstly, policy reform in any single area is a never-ending quest. Many of the basic reasons why the former system prevailed are still valid in the eyes of many, and new policies are constantly under attack (see official cereal prices, for example). In the policy reform business no battle is ever won once and for all.

Secondly, though policy changes may be completed in a relatively short time, the institutional development necessary to sustain those changes typically takes much longer³.

The fact remains that any policy, no matter how well thought out and designed, can only be as good as the extent to which it is implemented. If members of the Nigerian administration are not themselves convinced that a given policy is preferable to a former one, it will not be carried out, no matter how many different approaches one tries.

Further, superficial compliance to a policy (in order to satisfy conditions precedent, for instance) can introduce additional distortions and result in a situation globally inferior to the previous one. The OPVN tender and bids approach is a good example. Properly carried out, this approach would have been superior to the former purchasing methods. As it was actually implemented, however, it ended up being worse, overall.

³ Hermann, op. cit.

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ASDG II will also have to tackle the difficult related issue of knowing how to sort out the relative shares of policy orientation and implementation in a suboptimal situation. For instance, to what extent is the dismal agricultural input situation due to bad policies rather than to poor implementation of those policies? Can we realistically expect improvements by acting mostly through the policy angle, letting implementation capability "catch up" later on?

In terms of approach, one must find a practical middle ground between vague policy aims and over-specified targets. Initial formulation and subsequent flexibility are crucial. The keys to success will be in the efforts of the GON, assisted by the analysis of the technical assistance team, and of the USAID mission to find meaningful proximate targets and to change them as conditions change. The mission should then be hard nosed about compliance.