PD-AAW-206

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D.C. 20523

ISN 51856

NOTICE OF MEETING

TO: See Distribution

FROM: AFR/PD, Carol Peasley

MEETING: Niger African Economic Policy Reform Program

ECPR

DATE: 9/14/87
TIME: 9:00 a.m.
PLACE: Rm. 3886 NS

AGENDA

Review of subject PAIP
Chairperson: DAA/AFR: Edward L. Saiers

Attachments: Issues Paper

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AFR/SWA:GJones
GC/AFR:PJohnson
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ISSUES PAPER FOR PAIP

ECPR SCHEDULED FOR SEPTEMBER 14, 1987, 9:00 A.M., ROOM 3886

Country	:	Niger
Program Name	:	African Economic Policy Reform Program
Proposed LOP Funding	:	$12,000,000
Authorization Venue	:	AID/W

A. Description and Background: The Niger African Economic Policy Reform Program (AEPRP) is a program grant to provide assistance to the Government of Niger over a three and one half year period. The goal of this proposed program is to increase rural incomes by stimulating crop diversification, increasing markets and increasing export of Nigerien agricultural production. The purpose of the program is to expand access to marketing channels by private agents through policy reform. The USAID has identified two implementation options to achieve the reform objectives. Both programmatic options identified by USAID/Niger for the AEPRP build on its experience with economic policy reform gained since 1984. While the AEPRP would further solidify the existing reform program because of its concentration on rural sector production and income, it would also expand the program to incorporate important private sector oriented policy options and reforms. The two options are described briefly below:

1. Compensation for Revenue Loss. This option would consist of a $12 million grant. Of this, $2 million would be reserved for technical assistance, studies, and training. $10 million would be disbursed on a cash transfer basis to the GON in three increments. 8% of each disbursement, a total of $800,000, would be returned by the GON to USAID/Niger to finance an OE Trust Fund. In total, approximately $9.2 million would thus be made available for budget support to compensate for revenue losses to the Government resulting from elimination of export tariffs on key agricultural products. The program would highlight elimination of export tariffs as a key performance benchmark, attributing the dollar value of the conditional resource transfer directly to that reform. This option would require intensive multi-donor coordination at the design stage in the area of fiscal policy to ensure that the IMF accepts the removal of this tariff and to guarantee that additional activities necessary to relieve other constraints would take place.

2. Local Currency Investment Fund. This option would consist of a $7 million grant disbursed in three increments against an agreed timetable of reforms. Approximately $5.5 million would be deposited into a local currency fund used by the Grantee for development activities which promote the policy and institutional

reform measures of the program. A.I.D. would play a direct role in designing and approving these project-like activities.

The advantage of this option is the flexibility of programming afforded by the local currency fund. The criteria for the local currency uses would be defined and mutually agreed to in the Program Grant Agreement, but actual programming would take place over the course of the program, thereby allowing the partners to adapt activities to changing conditions. However, this option presents a far greater management burden for the Mission as it seeks to implement activities aimed at both strengthening institutional capacity and adopting reforms, rather than simply the latter.

The USAID has assessed each approach in terms of the Mission's overall program. The Compensation for Revenue Loss approach would potentially have greater impact on reducing disincentives to produce for export. It places less of a management burden on the Mission, and it is a simpler program with clear objectives. However, the Revenue Loss Option can only achieve its purpose if export tariffs are eliminated and if the resource transfer is large enough to offset anticipated revenue losses during a transition period. A simple reduction in tariffs would not likely remove the major constraint to exporting, nor would it reduce costs to the GON of operating the collection system.

On August 25, 1987, an expanded project committee met to identify AID/W issues and concerns related to the proposed program. It was generally agreed that the Compensation for Revenue Loss Program (Option 1) more closely resembled the Bureau's concept of an AEPRP than did the Investment Fund (Option 2) in that it most clearly links disbursements to a policy reform agenda rather than project-like achievements. At the same time, the expanded committee identified several issues and concerns which it believes the Mission must address prior to submitting a PAAD for AID/W review. In addition to the issues and concerns identified below, the expanded project committee also discussed the capacity of the GON and the USAID to manage and absorb so many policy reform efforts at once. The Mission was asked to clarify the relationships between its various policy related programs. In response, the Mission has submitted an annex to the PAIP which describes the relationship of the proposed AEPRP to other Mission efforts.

AFR/PD has received a draft IEE for the subject program which is currently under review.

B. Issues.

1. Issue No. 1: Choice of program design options.

Discussion: The Mission has presented a PAIP which offers the two design options discussed above, and Mission representatives have requested ECPR guidance on the choice of one option for AEPRP funding. The expanded project committee discussed this issue at length. The PAIP presents a series of carefully analyzed constraints to increasing the marketing of agricultural products and increasing exports. At the same time, the PAIP is unclear on exactly which set of policy or institutional reforms it could negotiate under the different options. What is clear is that the Mission believes that it can achieve the elimination of export tariffs only under the Compensation for Revenue Loss Program. This, combined with the view that the Compensation for Revenue Loss Program more closely resembles the type of policy reform program anticipated for AEPRP funding led the project committee to favor this option. The committee generally viewed the Investment Fund as a series of small projects which would result in a greater management burden on the Mission. At the same time, the project committee recognized that the increased cost of the Compensation for Revenue Loss Program would put greater pressure on the availability of AEPRP funds next fiscal year.

<u>Recommendation</u>: The project committee recommends that the Mission proceed with a design based on the Compensation for Revenue Loss Program and that it discard the Investment Fund option at this time.

2. <u>Issue No. 2</u>: Relationship of program strategy to expected achievements.

<u>Discussion</u>: The relationship between the purpose and the goal of the program is unclear; i.e., if access to formal marketing channels is increased for private agents will exports increase? The PAIP candidly states that so much ex-oficio exporting takes place that it cannot be quantified. These exports are not marketed through formal channels to avoid the export tax, but there is also a cost to the local producer of marketing through intermediaries. Many producers (e.g., those who run a few cows across the border to market towns) currently avoid this cost as well as the export tax. What is the basis for the Mission's assumption that relieving the identified policy constraints will either increase marketing through formal channels or that increased access to formal markets will result in increased production? Given the well established, lowest-cost market channels already developed, it would appear more reasonable to assume that alleviation of policy constraints related to export taxes and regulations, administrative controls, price controls, etc., would have a direct, positive impact on production and export levels, but not necessarily on the quantity of products marketed through formal channels. If the ultimate success of the Compensation for Revenue Loss Program depends on an increase in formal marketing (e.g., in order to realize an increase in revenue from export licenses to compensate for revenue lost when export taxes are eliminated), then the hypothesis that eliminating export taxes and other export constraints will lead to an increase in the use of formal marketing channels will need to be thoroughly developed and proven at the PAAD level.

Recommendation: The ECPR should explore the relationships between the program strategy and its expected achievements with the Mission representatives. In developing the PAAD, the Mission should be encouraged to focus on quantifiable, expected impacts of the program and to provide a thorough analysis of the assumptions it had made in linking decontrol of exports with an increase in formal marketing. If positive impact is expected on both the private, formal marketing and on the level of exports, a thorough analysis of those impacts must be included.

3. Issue No. 3: Viability of Compensation for Revenue Loss Option.

Discussion: The Compensation for Revenue Loss Option proposes to eliminate export tariffs on key agricultural products to encourage greater production and the use of formal marketing channels for the affected products. While the PAIP discusses a strategy to "compensate on a diminishing scale over the life of the program (3 1/2 years)," it also notes that annual revenue receipts from export tariffs on non-industrial products average $8 to $9 million annually, at the current exchange rate. Since AID would only provide $9.2 million as actual compensation for revenue loss, this would barely cover one year of the program, hardly 3 1/2 years. Since it will likely take traders and producers some time to respond to this incentive, a longer period of compensation and, per force, a higher level of compensation would seem necessary.

The GON's program to support Private Sector Initiatives and job creation identifies other constraints to private sector development besides export taxes, including cumbersome administrative procedures, overlapping and arbitrary enforcement of a multiplicity of rules, price controls, and poor information on economic programs and market conditions. It is unclear what the relative importance is of these various constraints. It is unclear whether any reliable marketing research has been undertaken indicating export taxes are a significant barrier to the production of any or all of the products in question.

Recommendation: USAID/Niger should continue to consult with the IMF to assure its acceptance of this program given the high external debt service ratio of 48%. The PAAD design team should include tax experts, and the PAAD should fully explore these considerations. Also the relative impact that can be achieved as a result of each of the policy reforms should be analyzed quantitatively prior to determining the mix of conditionality for the program.

4. Issue No. 4: Technical assistance requirements and strategy.

Discussion: The Mission proposes to reserve $2 million of the $12 million program for a combination of technical assistance, training, and studies. The purpose of such a large technical assistance activity is unclear. The reforms to be effected under the Compensation for Revenue Loss Program will have been thorougly analyzed and determined by the time the program is authorized and obligated. Whatsmore, given the lead time on A.I.D. contracts, it is likely that a sizeable portion of the program would be disbursed prior to the arrival of the technical advisors. Training would appear to be more appropriate for project financing. $2 million would be an excessive amount for program management needs. Given the anticipated shortfall in revenue loss compensation, would it be appropriate for the Mission to preserve as much of the program resources as possible for the cash transfer?

Recommendation: The ECPR should carefully examine the technical assistance requirements of the Niger AEPRP. To the extent that funds are approved for a complementary technical assistance component, AFR/PD will provide procedural guidance to the Mission for authorization/obligation of these funds as project assistance.

5. Issue No. 5: Cash transfer strategy.

Discussion: Dollar uses and accountability are unstated and undefined in the PAIP. Both of the programmatic options presented for AEPRP financing anticipate the provision of local currency (FCFA), not dollars. Therefore, the justification for a dollar cash transfer program is non-existent. Is the Mission missing an opportunity to achieve the double impact associated with cash transfers? For example, if the dollars were provided to the GON on a cash transfer basis and were provided for the payment of external debts or vital productive imports, and if the GON were then required to deposit an equivalent amount of FCFA into a special account which would subsequently be used for budget support (i.e., compensation for revenue loss), the program would achieve a double impact. If this is not feasible or desirable, what is the ratonale for providing dollars to the GON?

Recommendation: The ECPR should determine whether the Mission has provided a sufficient rationale for providing dollars on a cash transfer basis to the GON for this program. If dollars are to be provided, the Bureau should prepare and provide guidance to the Mission for the design of a management plan for the cash transfer dollars to be included in the PAAD. Such guidance will require a determination as to the extent to which current and pending PPC guidance for ESF cash transfers will apply to cash transfers financed under the African Development Fund.

6. Issue No. 6: Appropriateness of proposed Trust Fund.

Discussion: The Mission proposes to require that 8% of the funds provided by A.I.D. to the GON as a cash transfer be remitted to the Mission for the establishment of an OE Trust Fund. Under most circumstances, OE trust funds are established with host country owned resources (e.g., counterpart funds, generations, etc.) that are additional to the amount of the A.I.D. financing provided.

Given that the financing of USAID OE expenses is not expected to be an authorized use of AEPRP resources, is the establishment of the OE trust fund in the manner described an appropriate use of program funds? Alternatively, could the Mission require the GON to establish a counterpart fund with its own resources from which the Mission could draw trust funds?

Recommendation: The ECPR should explore this issue with GC/AFR. If resolution cannot be reached at the ECPR, the guidance cable to the Mission should provide guidance to the Mission on this issue.

7. Issue No. 7: Presentation of the PAAD and incorporation of related policy focused programs.

Discussion: The PAIP presents the proposed program as part of an overall Mission strategy aimed at reform of several macroeconomic policies which largely affect the agricultural sector. The program fits nicely with the Agricultural Sector Development Grant I (ASDG I), which is being amended this year to add funds and extend the LOP. ASDG II is to be developed and obligated in FY 1989. The workload thus required of the Mission over the next two years will consist of at least two PAADs and one PAAD amendment. Since all of the proposed program assistance will probably be funded from the same account (the African Development Fund), and since all of these activities are aimed at the same general purpose, with specific reforms attached to the specific programs, it would appear to make good management sense to reduce the documentation requirements of the Mission by encouraging it to develop one, overall program. This alternative would require the Mission to lay out one clear program assistance strategy and achieve specific reforms attributable to each type of program funding (ASDGI, AEPRP, etc.).

Recommendation: The ECPR should discuss and determine whether to request the Mission to develop its program assistance/policy reform strategy and present it as one comprehensive program or as separate activities requiring individual design efforts.

C. Concerns.

1. Concern No. 1: Program Management

Discussion: The PAIP does not contain the required management plan. This must be included in the PAAD.

Recommendation: The guidance cable will remind the Mission of this PAAD requirement.

2. Concern No. 2: Monitoring and evaluation plan.

<u>Discussion</u>: The PAIP mentions that "measurement of improved access to marketing channels (through reduction of overlapping contradictory regulations and procedures) will be developed at the PAAD stage and depend upon the programmatic options chosen and conditionality defined." Given the very different nature of the two proposals and the fact that conditionality is not defined, this may be sufficient for the PAIP. However, the PAIP also lists a series of assumptions under which each option would be implemented. These assumptions would be very important to track and measure as well. In order to measure implementation progress and impact, and in order to communicate the results of the program, it is very important that the Mission fully develop a monitoring and evaluation plan for this program that is included in some detail in the PAAD. Full development of the M&E program at the PAAD stage will ensure adequate funding for monitoring and evaluation activities and early implementation of those activities.

<u>Recommendation</u>: The Mission should include an M&E plan and budget in the PAAD following the Agency's "Guidelines for Data Collection, Monitoring, and Evaluation Plans."

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