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POLICY DIALOGUE IN THE DESIGN OF A.I.D. SECTOR ASSISTANCE: THE CASE OF NIGER

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I. INTRODUCTION

Like many A.I.D. assistance programs in Sub-Saharan Africa, the A.I.D. program in Niger is concentrated in the agriculture sector. Until 1982, the program placed little emphasis on economic policy and policy reform. Following the publication of the 1981 IBRD report on Africa (Accelerated Development in Sub-Saharan Africa: An Agenda for Action)—known widely in the development business as the Berg Report—and the adoption of policy dialogue as one of A.I.D.'s priority areas in addressing development problem, the A.I.D. program in Niger shifted toward more emphasis in economic policy and policy reform, particularly in agriculture. The process began in 1982, coincidental with Niger's deteriorating economic situation, characterized by large financial imbalances internally and externally, unsustainable debt obligations, and poor economic performance of state-owned enterprises, several of which are related to agricultural activities. The policy dialogue initiative culminated in the signing of a sector assistance grant agreement (Agriculture Sector Development Grant--ASDG) in August 1984 by the Nigerien authorities. 1/ Under the grant, the Nigerien government agrees to implement an agricultural policy reform program and to continue policy discussions with A.I.D.

This paper provides an analytical description of the policy dialogue process involved in designing the ASDG program. It is intended for sharing the experience with other A.I.D. missions and for generating an appraisal of the the design process for future sector assistance effort in matters related to economic policy and policy reform. The next section provides a summary of the Niger's ASDG policy reform program. It is followed by a description of the policy dialogue process, conditionality, and a criticism of policy reform as a prerequisite for economic growth and development. An attempt is also made to identify the obstacles encountered in the policy dialogue process and the factors contributing to the convergence of policy thinking and mutually agreed reform measures.

II. NIGER AGRICULTURE SECTOR DEVELOPMENT GRANT

The Niger sector assistance program focuses on the policy dimension as a prerequisite for structural adjustment and growth in the agriculture sector. The resources from the grant are targeted for supporting reform measures, recurrent and local costs of agricultural development activities, and technical assistance in policy analysis, policy formation and implementation. The amount of the grant is $32 million over a four-year

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1/ The process was i tiated under the leadership of Mission Director Irving Rosenthal and continued with strong support and brought to fruition with the signing of the grant agreement under the leadership of Mission Director Peter Benedict.

period. It will be made available to the Nigerien government in four tranches subject to satisfactory performance in carrying out the agreed reform measures.

The general theme underlying the reform program is deregulation and promotion of workable competition through more private sector (including cooperatives) participation in the areas of agricultural product pricing and marketing, agricultural input pricing and distribution, trade with neighboring countries (especially Nigeria), and reformulation of agricultural credit policy and management.

The policy instruments for achieving the objectives include changing government practices in price setting, budgetary allocation and discipline, and removing various administrative controls in the marketing and distribution of agricultural products and inputs. These changes are aimed at removing distortions of market signals and providing market incentives which are necessary for the development of the private sector.

A number of policy instruments chosen are simple but require persuasion to minimize resistance from officials responsible for implementing the reform. These are the type of policy instrument which involve changing government decrees, rules and regulations. Examples include: removing the prohibition on private traders to buy and sell grain freely or to distribute agricultural inputs; reducing restrictions on the free movement of grain across different provinces or districts in the country; and changing government practices in input price setting, subsidies, and controls on border trade. Other policy instruments involve structural changes and require external assistance in carrying out reforms. Examples of these include: setting up a system of tenders and bids to replace the current price setting mechanism of the grain marketing board; the dissemination of price and marketing information to promote competition; and the privatization of the state-owned agricultural input supply system.

III. THE POLICY DIALOGUE PROCESS

This section discusses the policy dialogue process during the design of Niger's policy-oriented sector assistance. It is intended to illustrate the essential factors for a useful policy dialogue and to indentify possible obstacles involved in the process. The major relevant factors are: the role of government in a mixed economy; the second best problem; the knowledge of country specific situation; and the question of conditicnality. An attempt is also made to highlight the linkages among the economic analytical underpinnings of the program, their assumptions, and the proposed reform measures.

A. The Role of Government in a Mixed Economy

Underlying the whole policy dialogue is the broader question of the role of the government in an economy like Niger. In general, A.I.D. views market-oriented solutions to economic development problems as relatively more efficient than solutions imposed by the government. And the private sector is a useful vehicle as well as a source for additional resources and energy. Because of its historical heritage, Niger generally views market-oriented solutions with skepticism and is particularly distrustful of the private sector. Consequently, government controls and interventions in the economy are pervasive. The general principle underlying the policy approach adopted by the government is that which might be termed the "market failures" approach. According to this view, extensive government interventions and controls are necessary in order to correct the failings of unregulated markets. Critics of the market-oriented approach argue that markets in Niger are dominated by monopolistic power, immobility of labor, inadequate information and infrastructure. These imperfections make it impossible for the economy to achieve optimality through market solutions. The private sector is just not ready to take over the marketing and distribution functions now performed by the state.

During negotiations, the private sector issue was further compounded by the a commodity import program initially proposed as a local currency generating mechanism for the grant. The mechanism was viewed skeptically by the Nigeriens and was interpreted as a means for subsidizing the United States private sector. This thorny issue was finally resolved by A.I.D. abandoning the use of a commodity import program as a modality for local currency generation.

B. The Theory of Second Best

While the concerns raised about market imperfections and the private sector potential are legitimate, the adoption of the market failures approach as justification for extensive government regulations ignores two important things: the problem of the second best and government failures.

The theory of the second best is concerned with a situation in which one or more of the efficiency conditions cannot be met. 2/ It asks whether, under these circumstances, it is still desirable to fulfill the other conditions which can be met. For example, suppose there exist a monopolist and a monopsonist in the economy. This violates the optimality conditions. Suppose through government action, the monopolist is forced to fulfill the efficiency criteria, but not the monopsonist. The theory asks: can one be sure that this will increase the country's well-being? The answer is: there is no assurance that the reduction in the number of unfulfilled conditions (in the example, from both monopolist and monopsonist to only monopsonist) will

2/ In economic jargon, the efficiency conditions are known as Pareto optimality criteria. Pareto optimality is defined as a situation in which no one can be made better off without making someone else worse off. Market imperfections violate the assumptions from which Pareto optimality is derived.

result in increased welfare to society because some of the conditions remain unsatisfied (i.e., the existence of a monopsonist). 3/

The theory of the second best has important implications for practical economic policy-making. The reason is that in the real world, there are obviously many constraints preventing the satisfaction of all the efficiency conditions. The second best problem is always present. Although theoretically a second best solution can be identified, in practice it is very difficult to trace the complicated effects of one change on the rest of the economy. Relevant information is difficult to obtain, especially in a developing economy like Niger.

Three practical implications follow. First, it is unwise to advocate any particular policy without understanding the particular circumstances under which the policy operates. Second, the argument for government controls in order to correct the failings of unregulated markets is generally not valid. Government is not omnipotent. It is not only markets which fail; there are government failures too. As described below and in various studies and evaluations cited therein, Nigerien government policies in agricultural product pricing, marketing, agricultural input distribution and subsidies, and agricultural credit have resulted in substantial costs relative to benefits, market distortions, and the preemption of the private sector and participation by cooperatives participation. Third, given the facts that market failures are relative and not absolute, and the continuing presence of the second best problem, one practical solution is to compare the relative efficiency between public and private sectors and allow each to do those things which it can do better than the other. Given the already pervasiveness of government intervention in Niger's economy and its failures, it is only reasonable that an attempt be made to explore the possibilities and potentials of the private sector (including cooperatives).

In the policy dialogue process with Nigerien authorities during the ASDG design, the above reasoning was maintained and reflected in the reform proposals. The reform measures for the most part involve only marginal and gradual changes in the division of labor between the public and the private sectors and in the development of workable competition in the economy. They are aimed at opening up the opportunities for indigenous private agents to have a larger economic role and to allow Niger's economy to uncover additional options which would lead to more efficient use of public sector resources and higher level of income as the country goes through the development process. This is illustrated by three specific reform proposals in the ASDG: therestructuring of agricultural input distribution and subsidy policy; the role of the grain marketing board in price stabilization and management of grain reserves; and agricultural credit policy and management.

3/ For the formal proof of the Second Best Theorem, see R. Lipsey and K. Lancaster, "The General Theory of Second Best", Review of Economic Studies, 1956-1957.

The proposed reform in the agricultural input supply system and input subsidies involve gradual changes. As currently envisioned, it will take a minimum of five years for the transformation of the official input supply agency toward a cooperative-owned entity. The effort is also being complemented by another A.I.D. project (Niger Agricultural Production Support Project). The proposed subsidy reduction measure incorporates a high degree of flexibility. The targeted subsidy reduction is in terms of the weighted average level of the subsidized inputs instead of subsidies on individual inputs. In other words, Nigerien authorities will have the flexibility in deciding the extent of subsidy reduction on each input subject to the constraint that the weighted average level falls within the agreed target. The weighted average level of subsidy can be inferred from the difference between the total cost of the inputs sold and their revenue. The difference is the total amount of subsidies. This reflects the authorities' refusal to agree to specific individual input subsidy reductions without assessing each input's contribution to increased productivity and the likelihood of cheap supply sources like Nigeria in the case of fertilizer. Furthermore, the Nigerien authories are concerned with the need to reduce the risk to farmers associating with the adoption of new inputs, and the apparent lack of agricultural credit. The agreed reform measures represent a compromise following several negotiations.

In the reform measures concerning the role of the grain marketing board in price stabilization and management of grain reserves, the emphasis is placed on shifting some of the functions currently performed by the marketing board to cooperatives and private traders and the promotion of workable competition. While the policy direction for agricultural credit is to move more toward using the informal credit market and the mobilization of private savings for the source of funds, the knowledge about this market is too scant to allow concrete policy formulation. As a result, an in-depth analysis of the situation is planned under the ASDG.

C. Knowledge of the Country Specific Situation and the Importance of Sound Economic Analysis

The design of the ASDG is based on a number of analyses and on information gathered from different ongoing projects as well as knowledgeable Nigerien officials. Of major significance to its design are the following A.I.D.-financed studies: Niger Agricultural Sector Assessment (1979); Joint Program Assessment of Grain Marketing in Niger (1983); An Evaluation of the Agricultural Technical Packages for the Republic of Niger (1983), The Market for Livestock from the Central Niger Zone (1982). Other major relevant analyses and studies financed by other donors include: the French (Caisse Centrale) and European Development Fund study on Niger agricultural credit institution and its problems (1984); the IBRD and the Canadian studies on Niger grain marketing board (1984); the IBRD Agricultural Sector Memorandum (1981); and the Niger recurrent cost study (1983). These studies, together with evaluation reports from a number of rural development and livestock projects, provide the necessary knowledge for the design of the ASDG policy reform program.

Knowing and understanding the specific country situation are fundamental to a productive policy dialogue. While there are several instances which indicate the importance of this during the ASDG design, it is clearly illustrated by the input subsidy and the pricing and marketing issues. These policy questions require country specific knowledge and understanding of their policy objectives. The dialogue is not simply a matter of persuading the authorities to reduce the levels of subsidies or to increase official grain prices.

Agricultural Input Subsidy Policy

The objective of agricultural input subsidies is to promote the adoption of modern input packages. Economic rationality would dictate that more subsidies should be given to inputs whose potential economic returns and economic viability are high (in the absence of subsidies), but where farmers are reluctant to use them because of the risks involved or they are not aware of their benefits. Inputs which farmers already value should receive less subsidies or no subsidies at all. Furthermore, one would want to be able to distribute inputs to as many farmers as possible. The distinction that should be borne in mind here is between subsidies to promote the adoption of modern inputs and subsidies as transfers to needy farmers. In the case of Niger, the objective is the former. This distinction has important implications in the reform proposal.

Theoretically, subsidies for the promotion of technical input packages as well as those for correcting certain market imperfections could be justified on economic grounds. In reality, evidence from the studies mentioned aboved indicate that the input supply system and its associated input subsidy policy have not worked out as anticipated and policies have not been based on sound economic analysis. Fewer inputs are available to farmers, many of them were not delivered to farmers on a timely basis, rates of subsidies on a number of inputs—especially agricultural equipment and animal carts—cannot by justified economically. Moreover, a relatively large amount of subsidy went to subsidize the inefficient operation of state-owned agricultural input supply enterprise.

In addition to the implementation problems mentioned above, there is some doubt as to the existence of an economically viable technical package for rainfed agriculture to justify the wide range of subsidies given to the inputs (see, for example, A.I.D.-financed study: An Evaluation of the Agricultural Technical Packages for the Republic of Niger). This does not preclude completely the use of subsidies. It does, however, mean that the so-called technical package has to be unbundled and subidies be applied selectively to individual inputs based on each input's economic contributions. The rate of subsidy for each input should be ajusted and subject to budget constraints with the objective of making the inputs available to as many farmers as possible. Moreover, subsidies should be channeled to the farm level instead of being used to subsidize inefficient parastatal operations, and be phased out once the inputs have been adopted by a certain number of farmers. This is essentially the rationale underlying the case made for changing the current practice.

Grain Marketing and Pricing Policies

In addition to managing the grain security reserve, the objectives of the grain marketing board's price and marketing policies are price stabilization and the control of grain movement in order to protect consumers as well as farmers from being exploited by private traders. Evidence from a number of studies indicate that, in practice, the marketing board has not been able to stabilize grain prices and the exploitation question can be better dealt with by other means than direct restriction of grain movement (such as increasing competition between the marketing board and private traders in areas where potential exploitation exists). The marketing board's practices have resulted in large losses because it was not able to predict and set prices to reflect market conditions.

At the time of the ASDG design, the marketing board had an excessively large reserve to maintain. Consequently, it incurred a large amount of debt. Its financial burden on the government budget has been the target of reform by donors like the IMF and the IBRD. In view of the political sensitivity of the issue and the fact that A.I.D. is a bilateral donor, the policy discussion was limited to finding alternatives to achieve price stabilization and to provide adequate price incentives to farmers taking into account the financial implications of the marketing board operations and its ability to do so effectively. The stock issue was discussed but not pursued by A.I.D. as a condition for the grant. It was essentially side stepped because of the political nature of the Niger marketing board.

The policy dialogue essentially focused on promoting workable competition in grain marketing, eliminating the role of price setter from the marketing board's functions, increasing the use of cooperatives as marketing board's agents in grain storage to be done at the village level. The policy instruments include: issuance of administrative decrees to remove all restrictions and fiscal impediments, except requirements for professional licensing, on the movement of grain within the country: broadcasting of grain marketing information by the marketing board; increasing use of cooperatives for grain storage at the village level; elimination of uniform national pricing; establishing a system of tenders and bids for the marketing board's buying and selling of grain; and reducing the role of the marketing board, particularly in urban markets, toward that of managing food reserve stock at the wholesale level, food aid handler, and supplier of grain to collective consumers.

The role of the marketing board in general and the use of the tender system in particular generated a lot of discussion. The tender system proposal is controversial in three respects. First, it is a radical change. In effect it eliminates the marketing board's role as price setter and limits it to setting only the quantity of grain it wants to buy or sell. The price stabilization objective is to be achieved indirectly through affecting the quantity of supply which the marketing board can influence in certain markets at certain times. It is different from most other proposals up to now which generally accept the premise that the marketing board has to play the role of price setter. From that premise, most proposals encourage the marketing board to adopt a more rational pricing policy—i.e. policy which reflects the existing market situation. The ASDG proposal abandons that premise. It argues that the marketing board is not in any better position than the market to dictate what the price should be.

Second, the tender system proposal requires that the concept of minimum or floor price be abandoned in order to generate useful price signals which reflect market conditions. This is difficult for Nigerien officials to accept because floor prices are viewed as a necessary production incentive to farmers. The U.S. model of agricultural support is frequently invoked to support their argument. In response to their concern, it was pointed out that a floor price can be effectively maintained only if the marketing board has the financial resources to purchase all the excess supply below the floor price. Otherwise, its benefits will go to those who are lucky enough to sell to the marketing board before its resources are exhausted. A two-tier price system will develop, one used by the marketing board and one in the parallel market. It is doubtful that this will really benefit farmers. Particularly, after having brought all the grain from villages to the marketing board's buying centers only to find out that the board could not buy any more; farmers are then forced to sell their grain at whatever prices they can fetch in order not to have to transport it back. This was the situation in 1983.

Furthermore, for the floor price to have a real incentive effect on production, it has to be set before the planting season begins. It has proven to be almost impossible for the marketing board to set appropriate floor prices. This has resulted in a wide range of fluctuations in the marketing board's reserve stocks, and a heavy financial burden on the government. The problem is partly attributed to the long open frontiers which generate a substantial amount of cross-border trade and which make it difficult to predict the supply response from the marketing board's price setting.

Third, in order for the tender system to operate properly, the private sector must be able to respond to the opportunity. While Niger has experience with a tender system, most observers identify a number of problems associated with its operation, ranging from improper procedures to limited responses from the private sector to nonfulfillment of contractual obligations. This concern is shared by both the Nigerien authorities and A.I.D. It is in recognition of these institutional incapacities and the past performance of the private sector in this area that an experimental approach for this proposal was agreed upon.

D. Conditionality in Sector Assistance Program

Since a substantial portion of the ASDG is intended for financing of recurrent expenditures of ongoing projects and rehabilitation programs in the sector in return for a sectoral policy reform program, agreement on clear policy objectives, scheduled targets, and an implementation plan is necessary. Conditionality is an unavoidable part of program of this nature in order to ensure the integrity of the program and to make it possible for the donor government to answer responsibly to its own constituents at home. The accountability question is a necessary requirement; whether it is provided by multilateral or bilateral donors. However, for a bilateral donor program like A.I.D. sector assistance, the existence of foreign policy objectives imposes an additional constraint. There are always losers in any policy reform program; consequently, politics (both from the perspective of both the donor government and the host country government) cannot be ignored.

An important component of United States foreign policy objectives is economic stabilization. Economic stability is a prerequisite for political stability. It is no exception in the case of Niger. Economic stabilization assistance for foreign policy objectives, however, tends to impose less strict conditionality or none at all. 4/ Conflicting objectives arise when economic stabilization is accompanied by the promotion of policy reform to bring about necessary economic adjustments. In this context of a political economy, two important questions arise: first, how strict and rigid should the conditionality be? Second, when is the appropriate time for policy reform oriented sector assistance?

For the most part, as the negotiating dialogue advanced, there was agreement in the policy direction, policy objectives, and the instruments for attaining them. The introduction of conditionality, however, raised a lot of discussion and negotiation. It was probably the most controversial aspect of the ASDG. It centered around two issues: the selection of performance criteria as conditionalities, and the degree of flexibility in the chosen conditionalities. 5/

The performance criteria in the ASDG have been criticized as being "not strict enough" as well as "too strict". Advocates of strict conditionality argue for more specific criteria with quantitative targets and an explicit schedule to meet the targets. Others argue that it will be difficult for the Nigerien government to meet the targets laid out in the ASDG. This could result in A.I.D. having to stop the disbursements from the grant and hinder both policy dialogue and the economic stabilization objective. Both views are probably correct with respect to some aspects of the program. But this is to be expected when trade-offs and compromises have to be made. Moreover, selectivity of reform measures is important for productive dialogue and negotiation.

4/ In the extreme case, it amounts to writing a check to the host country government, usually in the name of budgetary and balance of payments support, with no strings attached in the area of economic performance.

5/ Because of the use of conditionality, it also generated comments from some Nigerien officials that the ASDG looks like an IMF program.

This explains why some issues have not been addressed in the ASDG: for example, the size of the marketing board's reserve stock, the broader question of price controls including consumer prices in the economy, and the agricultural credit institution. Aside from these issues, the ASDG incorporates a set of conditionalities, both quantitative and qualitative, which is acceptable to the Nigerien authorities.

For several reasons, the formulation of quantitative targets as conditionality in a policy-oriented sector assistance program is more difficult than for macro-economically oriented quantitative targets for economic and financial stability (such as credit ceilings and overall government spending). First, the stabilization theory at the macro level is more developed and there is more evidence in support of the relationship between stabilization and the variables chosen as conditionalities. Accordingly, more confidence can be placed on conditionality. On the other hand, the association between the policy factor and the eventual goal of agricultural growth and development is fragile. It can easily be upset by external shocks or factors which are difficult to predict, such as the closure of the Nigerian borders or the drought as in the case of Niger. Both of these are likely to impede or delay achievement of the policy objectives. Second, the contribution of appropriate policies to economic growth is indirect. Getting the policy right is only the necessary condition; external resources for technological transfer and institutional development are also required. The two reasons mentioned here suggest that flexibility would be required to deal with policy reform at the sectoral level. Conditionality must be viewed in relative terms; interpretation of whether certain conditions are met has to be reviewed in the context of specific circumstances and decisions made based on informed judgement.

The timing for the negotiation of policy reform also plays a very important role. A.I.D.'s policy reform initiative in Niger coincided with the country's budgetary, balance of payments, and debt servicing difficulties. The need for economic stabilization was evident. It was the most important factor in persuading the Nigerien authorities to seek fast disbursing assistance from the IMF in order to meet its immediate crisis. At the same time, studies financed by different donors, notably A.I.D. and the IBRD, began to convince the government of the urgent need for policy and institutional reforms in order to make it possible to address more effectively the country's structural and longer term problems. Two policy-oriented conferences (Recurrent Cost Workshop and Conference on Agricultural and Rural Development --known as the Zinder Conference), financed by A.I.D., were held and attended by resident donors. In the case of the Recurrent Cost Workshop, it also included the IMF, CILSS and CLUB DU SAHEL. The conferences contributed to the increasing awareness of the recurrent cost implications of public investment and to the setting policy directions related to agricultural and rural development. These conferences, together with the adoption of austerity measures under the IMF program, provided a positive environment for productive policy dialogue. They complemented and helped the design of the ASDG.

E. Critics of Policy Reform

In an observation on the contribution of the IBRD Accelerated Development in Sub-Saharan Africa: An Agenda for Action, Professor Berg commented that the most useful result of the report has been the discussion it has generated over broad issues of development strategy. In his words: "Economic policy has won a place at the high intellectual table, and policy reform will be a major prerequisite of renewed growth in the decades ahead". 4/ Not everyone agrees with this statement. In the case of the ASDG, criticisms of policy reform as a prerequisite for economic growth center around two arguments: the sovereignty question and the lack of visibility from money spent on "buying" policy reform.

It is often argued that it is not appropriate for bilateral donors like A.I.D. to ask a recipient country to undertake reform measures because this will be an infringement on the country's sovereignty, a smack of colonialism, and an obstacle to United States foreign policy objectives. Underlying this criticism is the conditionality issue. Unlike project aid where disbursements of funds are tied to certain activities which are easier to identify, sector assistance is not project related. In the case of ASDG, policy reforms are sine qua non; disbursements of funds are conditional on the satisfactory undertaking of the agreed reform measures. This is necessary in order for A.I.D. to maintain some leverage in the discussion of the program implementation. There is no real satisfactory response to the sovereignty question. The recipient country always has the option of refusing the assistance by invoking the sovereignty argument. If conditionality is considered by the host country to impinge on the country's sovereignty, policy-oriented sector assistance should probably not be contemplated. In the case of Niger, the argument is not well founded. 5/

Unlike building roads or bridges, it is difficult to see the direct association between resources expended on policy reform and immediately visible outcome. On the other hand, it is a well-known fact that there are visible prestigious government buildings, conference rooms, sports stadiums, and over-sized factories which contribute little to the country's sustainble economic growth or the income of the majority of the population. Prevalent in many Sub-Saharan African countries are under-utilized factories, abandoned irrigation perimeters, unmaintained roads, schools lacking books and other materials, and hospitals without adequate medical supplies. These are typical outcomes following the withdrawal of donor financial support. They usually

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4/ The Georgetown University Center for Strategic and International Studies, "Africa Notes", August 5, 1984.

5/ Paradoxically, this argument was mostly advanced by non-Nigeriens. A resident expatriate advisor at the Ministry of Planning once told the author, regarding the reforms and the conditionalities proposed in the ASDG, that the United States is supposed to be Niger's friend, not like the IMF.

result from insufficient consideration of the policy dimension (such as, policies related to recurrent costs and the incentive system) in the development strategy and from political expedience.

IV. CONCLUSION

What conclusions can one draw from the Niger ASDG design experience? More specifically, what are the factors which contribute to the sucessful negotiation of the ASDG? What are the obstacles in the negotiation process and in what lies ahead? What are the consequent implications for policy dialogue during the implementation phase? What lessons has one learned which may be useful for future A.I.D. policy-oriented sector or non-project assistance?

Three major factors contributed to the sucessful policy dialogue process in the design of the ASDG: first, the country's worsening economic and financial situation; second, knowing and understanding the country specific situation and sound economic analysis; third, selectivity and flexibility. The first factor forced the Nigerien authorities to rethink their policies in order to improve the allocation of declining public sector resources. The IMF program, by imposing austerity measures, helped in this respect; it also encouraged the authorities to engage in policy discussion with other donors and to seek additional assistance from them. However, the agreement on the ASDG proposed reform program would have not been possible if analyses and studies were not undertaken in advance. The studies cited in Section III.C of this paper and the numerous formal and informal discussions which were part of these studies had helped improve a common understanding of the problems and the policy objectives. 6/ A.I.D.'s willingness to be selective, flexible and sensitive to political considerations of certain reform measures facilitated the conclusion of the negotiation and a fruitful policy dialogue process.

6/ The importance of having common understanding of the problem is illustrated, for example, by the meaning of the word "liberalization". During the discussion of trade liberalization (border and internal trade), it was learned that to Nigerien officials trade liberalization means: simply less than full prohibition from participating in trading activities. The fact that traders have to go through administrative and fiscal procedures does not mean trade is not liberalized. The ASDG design team, on the other hand, interpreted liberalization to mean fewer or no administrative and fiscal impedements except for simple business licensing and registration. The different interpretation of the idea of liberalization led to puzzlement on the part of the Nigerien officials as to why reform is needed.

The obstacles encountered during the ASDG design included: the resistence by some Nigerien officials to the use of conditionality; the capacity to absorb the full implications of some of the reform measures; and the ability of the Minnistries of Rural Development and Planning to coordinate policy discussion with other ministries and governmental agencies, which are responsible for implementing the policy changes. The last two points are best illustrated by the implications of the proposed tender system mentioned in Section III above. Although they were discussed in the policy dialogue, it is doubtful that all the Nigerien officials involved understood the implications of the proposed reform. This is due partly to the poor communication and coordination among Ministries of Rural Development, Planning and the grain marketing board, and partly because the marketing board resisted the policy changes. It remains to be seen the extent to which these obstacles will hinder the actual implementation of the reform measures and the ability of the government to fulfill the conditions in the grant agreement.

Policy dialogue is an ongoing process and policy modifications are part of the process. They are inevitable and they become even more important as reform measures are implemented and possible side effects or unanticipated outcomes emerge. They are to be expected because policies are usually made with less than full certainty. This is partly due to the information problem and partly because of the early stage of the country's development which makes it more difficult to predict certain responses from policy changes with adequate degree of accuracy. This means that the policy reform program must incorporate some degree of flexibility to allow false recommendations to be corrected following policy implementation.

But for the host country government and donors to recognize the need to reformulate policies in light of new evidence, there must exist a capacity to collect and absorb policy relevant information, and knowledge as well as an ability to analyse and reformulate alternative policy options. Recognizing policy dialogue as a learning and transfer of knowledge process suggests that the merit of a policy oriented program like the Niger ASDG ought to be viewed on the basis of its contributions to the host country's increased awareness of policy factors and the development of a policy analysis capacity in addition to the impact of policy on agricultural production and economic stabilization. This is important because it is easy to avoid addressing the policy question by pointing out the negative or unanticipated effects associated with policy changes themselves or exogenous factors which were not adequately taken into account (or considered unpredictable) when policies were formulated. In the case of Niger, such a tendency is tempting because of recurring droughts or the closure of the Nigerian borders. The appropriate question to ask, however, is whether the existence of these exogenous factors is sufficient, a priori, to warrant the exclusion of policy reform as an important element in a longer-term and less crisis-oriented development strategy.

The experience of the ASDG design suggests two implications for consideration of future sector or non-project assistance targeted for improved policies. First, some flexibility should be incorporated in the formulation of conditionality. Because of the uncertain outcomes of the effects of policy changes, formulating policy targets and conditionality over a multi-year period for multi-year sector assistance programs may not be appropriate. There are two possible solutions: either sector assistance programs be authorized for one year at a time; or conditionalities be formulated prior to the authorization of each tranche in a multi-year sector assistance program following an appraisal of performance under previous conditionalities. The latter is preferable becuase it makes possible for the use of sector assistance for medium-term adjustment purposes. At the same time it allows the formulation of conditionality to take into account the most recent performance and circumstances.

Second, the emphasis of economic policy and policy reform in an A.I.D. assistance program increases the importance of having A.I.D.'s own economists in the field missions. It is not realistic to expect short-term consultants alone to fulfill the necessary policy analysis and recommendations without a mission's informed guidance; in-house resident economists are in a better position to give this. A.I.D. economists in the field could actively participate in the analysis and design of a policy reform program as well as serve as the institutional memory and the point of continuity. But for economists to be effective in this type of situation, they have to be aware of political realities. If politics is the art of possible, economists as design officers and policy advisors have to be artists of compromise instead of scientists of the dismal science. They must be conscious of what is possible and what is not. For example, it is often easier to achieve small policy improvements than to effect major policy changes. This is not to say that economists should follow the route of political expediency and never make radical proposals.

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