

Draft Report

***USAID/Niger Economic Reform
and
Microenterprise Program***

Submitted by
Barents/KPMG
with
DAI

October 23, 1995

1

DRAFT USAID/NIGER Economic Reform and Microenterprise Program Table of Contents

EXECUTIVE SUMMARY	4
GLOSSARY OF TERMS	15
I INTRODUCTION	16
II METHODOLOGY	16
III FINDINGS	16
A MACROECONOMIC ISSUES OF RURAL GROWTH	16
1 <i>Poids du secteur rural dans la production et dans l'emploi</i>	16
2 <i>Les marches des produits agricoles</i>	21
3 <i>Impact sur le secteur rural des perspectives de croissance sectorielle liees aux</i>	22
a Les perspectives du secteur rural	22
b Les perspectives du secteur urbain	22
c Impact du secteur industriel	23
d Le secteur du tourisme	24
e Mining	24
f Industrial and Overall Impacts of Exchange Rate Changes	25
4 <i>Policy Requirements for Growth</i>	27
a Financial Sector Requirements for Rural Growth (SO2)	27
b Illustrative Activities/Sectoral Adjustments for SO2	29
c Niger's Bretton Woods Agreements	36
d Potential Impact of Nigerian Economic and Monetary Policies	37
B AGRICULTURAL PRODUCTION MANAGEMENT THROUGH DROUGHT CYCLES -	37
1 <i>Overview</i>	37
a Climate and Production	38
b Management of the Soil Resource Base	40
c Institutional and Infrastructural Constraints	44
d Activities that Improve Use and Conservation of Agricultural Resources	45
(1) USAID	45
(2) Other donor activities	46
e Approach	46
2 <i>Management to Increase Production and Reduce Variability</i>	47
a Agriculture	48
b Livestock	54
3 <i>Evaluation of Selected Management Practices</i>	55
4 <i>Policy Requirements</i>	57
5 <i>Validity of USAID/Niger's Vision</i>	58
C AGRICULTURAL MARKETING	59
1 <i>Methodology Error</i>	59
2 <i>Niger's Input Markets Constraints and Opportunities</i>	60
3 <i>Output marketing</i>	66
4 RECOMMENDATIONS	75
a Input Markets	75
b Output markets	77
D SMALL AND MICRO-ENTERPRISE (SME) DEVELOPMENT	81
1 <i>Introduction Importance of Micro-enterprises in the Nigerien Economy</i>	81
2 <i>Methodology</i>	81
3 <i>Linkages Between Micro-enterprises and Other Sectors of the Economy</i>	81
4 <i>Sub-Sector Case Analyses</i>	81
a Case Study Peanut Processing	82
b Skins and Hides	92

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

c Fruit Juices and Processed Fruit Products	95
5 Enterprise Development Constraints and Donor Activities	96
a Introduction	96
b Constraints Facing MSEs	99
c SME CONSTRAINTS	109
6 VALIDATION OF MISSION STRATEGY	115
7 RECOMMENDATIONS	118
a Recommendations for Promoting MSE Development	118
b Recommendations for Promoting SME Development	126
E AGRICULTURAL AND RURAL ENTERPRISE CREDIT -	130
1 Overview of the Financial Services Sector in Niger	130
a Viability and Potential of the Financial Resource Base	133
b Principal Constraints to Improved Delivery of Financial Services in Niger	134
2 Constraint Summary	136
3 Supply and Demand for for Financial Services	137
a Estimated Supply of Savings in The Nigerien Economy	142
E3b Analysis of Demand for Financial Services	144
4 Institutional Capacity to Provide Savings and Credit Services	144
a Formal Financial Institutions	144
b Semi formal financial Institutions	145
4c Other donor funded Semi-formal Financial institutions	153
d Semi-formal financial institutions Prognosis	154
6 Conclusions {Babu nba, babu bashe (No profit, no credit, Hausa)}	155
a Validity of the USAID vision	161
b In summary	163
C Interventions to improve the level of services for financial sector growth	164
IV CONCLUSIONS	166
V RECOMMENDATIONS	167
ANNEXES	169
ANNEX A MATRIX OF CONSTRAINTS/INTERVENTIONS/INDICATORS	169
ANNEX B PERSONS INTERVIEWED	171
ANNEX C NATURAL RESOURCE MANAGEMENT IN AGRICULTURAL PRODUCTION	178
ANNEX D CODE RURALE JUDICIAL TEXTS	178
ANNEX E LENDING INSTITUTIONS COST OF OPERATIONS	178
ANNEX F AGRICULTURAL DATA	178
ANNEX G SMALL ENTERPRISE DATA	178
ANNEX H BUSINESS PLAN FOR EXPORTATION OF IRRIGATED GREEN BEANS	178
ANNEX I CEREAL TRANSPORT COSTS	179
ANNEX J REFERENCES	182
ANNEX K PROFITABILITY ANALYSIS OF FINANCIAL INSTITUTIONS	185

Executive Summary

Reviewers of USAID's Proposed Country Strategy Plan, 1995-2002, raised concerns about Niger's ability to achieve sustainable economic growth in excess of its 3.3 percent rate of population growth. Some reviewers suggested that unless some means can be found to achieve a rate of economic growth in excess of the rate of population growth, USAID might be most effective if its strategy were to concentrate exclusively on USAID's Strategy Objective 1 (SO1), that is, efforts related to family planning, maternal/child health services and child nutrition.

An exclusive focus on SO 1 would mean giving up the remaining two components of USAID's proposed strategy, namely

- SO2, which involves efforts to improve access to markets, especially through use of improved, decentralized financial services
- SO3 which seeks sustained, widespread adoption of management practices that improve conservation and productive use of Niger's forests, fields, waters and pastures

The overall conclusion of this study is that Niger is very likely to achieve an economic growth rate in excess of 3.3 percent in the intermediate run of two-to-five years without USAID's assistance. With the adjustments of the SO2 and SO3 strategies that are summarized in Exhibit 4, however, USAID can significantly assist the growth of rural farm and non-farm activities, and enhance both Niger's overall rate of growth and rural participation in that growth.

Exhibit 4

Development Strategy For USAID/Niger's Economic Reform and Microenterprise Program*

I Agronomic Conditions in 1995	Hectares millions	Hectares millions	
- Arable land is 15 ml out of 128 ml hectares	15	15	
- Area cultivated (increasing exponentially with yields constant\1)	7	9	
- Arable land seriously eroded	1.5	-4.5	
- Residual arable land	<hr/> 6.5	<hr/> 1.5	
- Irrigable land	0.27		
- Currently irrigated land	0.07		
* Residual irrigable land	<hr/> 0.2		
II Proposed Growth Strategy	Sectoral Impact	Impact on GDP Growth	
Exploit Gold Reserves at Liptako	-\$US 185ml/yr in 2000	17% increase\2	

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

- New totally private sector activity	\$US 16 ml/yr rural incomes	1 4% increase
Exploit Fertilizer Reserves at Tahoua USAID technical assistance for Phosphate mine development & Transition to cash input farming	25% Increase in Crop Production	6% increase\3
Demonstration effect To encourage use of	Reduced Crop failure in droughts Improved seeds -Water harvesting -Nitrogen fertilizer (NRMs) Improved animal production	2% increase\4
Devaluation Stimulus to Niger/ Nigerian Trade	Rural Income Effect Stimulation of Agro-processing Non Farm enterprise	3 5% increase\5
Micro & Small Enterprises Produce unrecorded GDP equal to 50% of GDP in production & services		
Redesign macroeconomic Trade relations - Develop defenses against Non FCFA zone devaluations	Improve markets for Rural traders	
Agricultural marketing - Better Storage Private Sector Seed Production	Can Increase Millet & Cowpea Production	1 25% (i e 5% of Crop Production)\3
- Better market information	10% & 20% Respectively	
Rural credit Mobilize \$88 ml bank reserves with semi formal intermediaries and USAID bank training Credit now available to 2% of rural sector	Complements Rural Income Effects of Gold Fertilizer and F CFA Devaluation Facilitates Business Expansion Possible from Devaluation	

1/ Area cultivated grew at 5 6 percent p a from 1984 94 See Annex F3

2/ Uranium contributed 2 6% of GDP in 1993 down from 13 1% of GDP in 1984 when demand was still strong for the mineral

3/ Crops were 25 7% of GDP in 1993 which is estimated at \$US 1 1 bl

4/ Animal husbandry contributed 13 7% to GDP in 1993

5/ This increase due to devaluation of the F CFA equals the loss estimated to result from an almost equivalent appreciation of the F CFA/Naira during 1985 87

* Preliminary results of a Barents/KPMG & DAI sector assessment of Niger's rural sector Draft date is 10/30/95 file is strtagy4 xls

Niger's growth prospects are critically dependent upon new and aggressive use of two indigenous physical resources gold and phosphate fertilizer Gold reserves, which the GON turned over to the private sector for exploitation in early 1995, is likely to provide significant numbers of jobs, local development and foreign exchange Reference to Exhibit 4, which summarizes likely impacts or sources of intermediate growth in Niger, indicates that gold production in the Liptako Region could add 17 percent to GDP per year within five years Uranium, by contrast, contributed 2 6 percent of GDP in 1993, down from 13 1 percent of GDP in 1984 Gold mining activity is expected to increase rural incomes in the selected areas where it will create economic activity the equivalent of 1 4 percent of overall rural income in Niger as a whole USAID's strategy can help the GON channel its revenues from mining activity into sustainable national growth

Phosphate fertilizer deposits at Tahoua, unlike the gold deposits at Liptako, are not precisely defined as proven reserves However, they have been mined and used as fertilizer in Niger in the past, as is noted in Annex F, Agricultural Data Exploitation of these deposits is particularly important for agriculture since the lack of phosphate fertilizer is the primary constraint to greater agricultural productivity in agroecological zones where rainfall is at least 250 mm per year Among other contributions to plant

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

health, phosphate stimulates root growth Improved root growth helps plants endure drought stress and enhances yields in all climatic conditions

Widespread use of Tahoua phosphate could increase crop production 30 percent and add six percent to overall GDP growth USAID's country strategy can encourage the development of the Tahoua phosphate reserves It can also stimulate initiatives needed to complement phosphate use These initiatives include better seeds, storage and marketing for agricultural production, greater rural access to credit for all farm and non-farm activities, and better natural resource management The potential impact of these initiatives is summarized in Exhibit 4

The quantities of phosphate needed are very substantial In 1994, the total area for rainfed crops was 7 059 million hectares Approximately 250 kg of Tahoua rock phosphate are needed per hectare every three years The result would immediately improve yields of millet and cowpea intercropping, maize, sorghum and groundnuts Later as farmers became aware of the increased yields they would likely increase cash crops in their cropping plans This diversification would encourage greater expenditures on agricultural inputs, including extension services and other means to discover new techniques to enhance yields

USAID's near-term strategy is particularly important to Niger because gold mining is an extractive industry that could deplete reserves in 15 years Moreover, the dramatic improvements possible with use of phosphate fertilizer by itself need to be augmented to meet secondary constraints on plant growth Remedies to these secondary constraints include sequentially greater use of green and animal fertilizer urea, pesticide, animal traction and potassium Natural resource management practices such as water harvesting though not universally applicable to all crops in all situations, can also contribute to production and can be added as perceptions of technical and economic considerations suggest a need

Widespread use of the fertilizer is expected to convince farmers that agricultural inputs and conservation of land are worthwhile investments This realization will create a conceptual demand for these inputs SO2 related efforts to provide rural access to credit will help create the effective demand for these inputs, but this effort is insufficient for creditors Lenders view farmers as high risk clients because of the variability of weather uncertain commodity prices when harvests are bountiful, and possibly monopolized commodity pricing Formal sector lenders also lack the expertise to do business with rural borrowers

USAID's near-term strategy can assist Niger with the marketing and diversification transformation that can make farmers more creditworthy Years of large surpluses of staple crops almost certainly mean low prices for agricultural commodities Years of drought can mean hunger or worse Possible solutions include

- Better on-farm storage can provide food security during drought years and help farmers hold inventories, thus preventing forced sale during the harvest period when prices are usually lowest
- Production shifts from staple to cash crops after farmers' crop production plans include an expected surplus of staple crop production, market information systems that report weather conditions, improved farm management practices, and likely regional demand for crops at harvest Such changes will help farmers formulate crop production plans and apply inputs in a manner that will minimize shortages and surpluses
- Reduction in transportation weaknesses will provide more remote farmers with access to agricultural inputs and commodity markets
- Improved farmer access to credit for inputs can be achieved by improving commodity markets These markets are impacted by monopolistic wholesalers and volatile real exchange rates with Nigeria Phosphate fertilizer, better storage, and better farm management through market

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

information systems will reduce production variability during normal and drought years, but additional improvements are needed to reduce commodity price declines during harvest periods. Local marketing boards are suggested as one possibility in the report. These boards can perhaps effectively serve as "agents" to bring buyers, sellers, creditors and transporters together. However, all indications suggest that commodity inventories should not be controlled in any way whatsoever.

The macroeconomic section of the report points out that marketing boards or groups with even the most sophisticated management usually fail. The foreign shareholders of the two French companies that mine Niger's uranium and negotiate an annual contract price for it provide an example. Niger's contract price for uranium was less than the world price until 1976. Then it doubled between 1975 and 1977, just as the European spot-market price for uranium dropped sharply. Niger's contract price averaged 82.7 percent above the world price from 1980 to 1989. Moreover, in 1989 the contract price was 261.2 percent of the world price. Marketing boards seem to make profits at the expense of farmers, incur losses at the expense of the government or taxpayers, and eventually are forced to close due to excessive losses.

A second suggestion for improving commodity markets is through macroeconomic policy. A study is needed to examine possibilities to create bilateral trade policies for countries outside the F CFA franc Zone. Implementation of such policies could help modern and traditional manufacturing as well as commodity markets. Estimates suggest that Niger lost 13 bl per year in export revenues after the 37.7 percent devaluation of the Naira between 1985 and 1987. This loss was equal to 3.5 percent of rural income in 1987. Moreover, international trade theory suggests that tariffs can serve as an effective defense against currency devaluations of trading partners. USAID could finance studies, perhaps through PASPE, to identify flexible tariff strategies that Niger could pursue to protect itself against the frequent devaluations in the Nigerian Naira without violating its membership in the Union Monetaire Ouest-Africaine (UMOA).

The report notes that any new tariffs probably should be accompanied by a third-party contractor that would have permanent and complete responsibility for implementing the tariffs to avoid corruption. It notes further that the tariff could be advantageous to small commodity traders in two ways. First, the tariff, which would raise the cost of Nigerian commodities in Nigeria, could exclude small traders if such traders can be identified effectively. Depending on transportation costs these small traders and those who avoid formal border crossings as they transport goods across the border might have a competitive advantage.

Second, the suggestion is made that macroeconomic policy be used to identify multiplier impacts of rural sector growth which are possible through fertilizer development, the recent F CFA devaluation and supporting SO₂ activity. The goal is to encourage the GON to invest some of its foreseeable profits from gold mining, a resource depleting activity, into phosphate fertilizer, a resource restoring activity. Possible roles in the development of Tahoua would be

- USAID could fund an initial management study that would identify exploration, reserve definition and other tasks required to bring the Tahoua reserves into production under private sector control. The study should also develop a time schedule for each task.
- UNDP could finance exploration and overview measurement of reserves in sufficient detail to elicit private sector bids for permits to define reserves fully and to mine the reserves within a specified time period, provided minimum quantities of reserves are found.
- The GON could set aside funds for loans to small firms to distribute fertilizer and provide minimal extension services to farmers who buy the fertilizer. Funds are also needed to study the most appropriate way to package the fertilizer for farmer use. As noted subsequently, farmers

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

complain about wastage during application. Tahoua phosphate is applied as a powder that frequently appears to be blown offsite by the wind.

- USAID could provide training to the entrepreneurs who successfully compete to distribute the fertilizer and to the trainers who teach the small farmers extension techniques.

The potential growth impact of the F CFA devaluation is a regain of approximately the F CFA 13 bl loss in rural incomes that is estimated to have occurred as a result of the appreciation of the F CFA during the period 1985-87. The opportunity to regain this income each year will probably continue as long as the real exchange rate between Niger and Nigeria remains near its current levels. Moreover, a gradually increasing awareness among producer and consumers of the price relationships favoring Nigerien goods and services are likely to accelerate marketing opportunities over time.

The F CFA 13 bl or more in additional sales each year that could result from devaluation would benefit mainly in the rural sector and provide an important opportunity for the growth of micro and small enterprises (MSEs). Characteristics of MSEs make possibilities particularly advantageous for improving employment and income distribution. Unlike larger firms, MSEs attempt to remain small to avoid the various forms of government control that complicate activity in the formal sector. The result is that approximately 85 percent of MSEs have three or fewer workers. Hence, the additional sales volume possible from the F CFA devaluation creates pressure for multiplication of MSEs. More information on average sales volume per year of MSEs and information on their equity/debt ratios is needed. It would provide a basis for estimating the number of new MSEs that might be created from the devaluation stimulus. It would also provide an indication of their credit requirements.

Credit availability can reduce hidden cost burdens for existing MSEs and stimulate the formation of new ones. The report points out that perhaps only two percent of the rural population have access to credit. Lack of credit can force SMEs to pay very high interest rates on loans for inputs, often through contingent agreements to share profits with creditors. Their balance sheets, if they could be created, would reflect loan agreements that depend on personal relationships and the eventual profitability of business endeavors. These arrangements, which transform lenders into a blend of creditor and quasi-equity holders, can pose management problems for MSEs and erode owner-equity even when profits are high.

The team's overall conclusion related to the validity of the mission's agricultural marketing program is that it needs to be expanded beyond simply providing credit to rural areas. USAID has successfully achieved this very focused and important objective, but the objective needs to be broadened. More emphasis is needed on agricultural marketing, and input markets need reliable sources of seed and fertilizer. Recommendations include:

- Initiate a process to establish a national seed policy to restructure and reform the seed subsector. This restructuring should include (1) strengthening relations and work plans among INRAN, seed multiplication centers and extension services, (2) re-establishing national and regional committees (representing groupements, small farmers, cooperatives at arrondissement and village levels) to include an even number of public and private sector representatives, and (3) progressively withdrawing from production of M2 and M3 seeds while providing incentives to invite cooperatives and private companies to fill the seed production void.
- Management actions required to improve seed production and other inputs include (1) decentralizing current seed research and multiplication systems, (2) cutting costs at multiplication centers and INRAN by contracting with small farmers for the multiplication of M2 and M3 seeds, (3)

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

initiating quality control systems, seed production and certification, (4) maintaining national seed security stock while encouraging the creation of privately managed seed security stocks, (5) establishing an ad hoc agribusiness advisory group to discuss constraints in input and output markets that impact both SO2 and SO3, (6) establishing a committee representing SO2 and SO3 interests to collaborate with donors to develop a common framework for development of the fertilizer and other input markets, and (7) promoting cooperation between USAID/Niamey and IFDC/Africa INRAN, and ICRISAT to explore the phosphate rock in Akker, Tahoua, which IFDC and INRAN have investigated since 1982

- Management actions required to improve output markets include (1) providing technical expertise and other resources to improve storage and conservation practices for cowpeas, onions and maize, and (2) developing business plans to promote cowpeas, souchet, produce (tomatoes, sweet peppers and other garden vegetables), and onions as a means to expand cash crop opportunities
- An institutional contractor should be enlisted to procure and manage the expertise and services needed to strengthen input and output markets as specified in the foregoing recommendations

Conclusions and recommendations related to small and micro-enterprise development begin with a summarization of the contribution of the overall informal sector to economic growth. Estimates suggest that the informal sector generates 74 to 200 percent of measured GDP. These MSE and SME enterprises account for informal GDP created in manufacturing, commerce, and services. A detailed analysis of one manufacturing subsector, peanut oil processing, indicates that this subsector contributed 182 million F CFA in value added in 1994. This contribution is 9.2 percent of the measured GDP recorded in 1994 for all agro-processing in the formal sector. GDP contributions for butcheries, textiles, carpentry and restaurants, combined with peanut oil production, generated 21.7 billion F CFA in 1994. This equals 49 percent of the 44 billion F CFA which is the measured contribution of the rural sector to GDP in 1993 (Section A, Table 1)

According to 1988 census figures, women owned 29 percent of the 130,000 micro-enterprises surveyed. Moreover, women own virtually all of the micro-enterprises in some subsectors, including peanut oil, shea butter production, onion and tomato drying, dairy product processing, cotton-spinning, raw mat weaving and beverage processing. They also run most of the restaurants in Niger and are active in artisanal, pottery and furniture production.

Credit is a major constraint for MSEs. They compensate for a lack of working capital by delaying payments to suppliers or getting advances from customers, but these strategies impose hidden costs. SMEs are forced to merge their input acquisition and output marketing decisions to meet their financial needs. This practice usually reduces their overall profitability.

MSEs need short-term working capital and credit for one-to-three years in order to purchase equipment. Mechanisms to analyze MSE risks and deliver credit, however, are virtually nonexistent. For example, during the field work for this report, peanut oil producers in Maradi knew of only one woman who had received credit through an NGO program. Medium-term financing for MSEs is virtually nonexistent with only one donor, ILO/EDF PROFORMAR, currently making loans on a multi-year basis to MSEs. MSEs also need greater access to improved technology, technical training, and management/business training. Existing SMEs also need fairer treatment from donors who frequently, and perhaps inadvertently, subsidize the attempted creation of new SMEs that will unfairly compete with existing

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

businesses To remedy this unfair competition, NGOs should sell rather than give capital training and other forms of assistance to MSEs

SME constraints, which are different from MSE constraints partly because SMEs are bigger and consequently more visible to government authorities, include limited access to credit and lack of management skills Of at least equal importance are the oppressive conditions imposed upon them by public-sector regulators Particularly onerous regulations include government restrictions on their ability to hire and fire workers, schedule overtime, and import and export These restrictive public sector regulations not only limit the efficiency of MSEs They also discourage SMEs from employing more than a few workers or growing in other respects that will make them visible targets for government regulators

MSEs have the potential to make a significant contribution to economic growth in Niger since they already dominate manufacturing and service activities USAID can best promote MSE growth by providing continued assistance in developing sustainable institutions to deliver financial services to MSEs USAID should strive to develop a workable model of a self-financing financial institution which can attract rural savings and recirculate these savings as both short- and medium-term MSE credit USAID is also in a uniquely strong position to improve the SME policy environment through use of NPA conditionality The three issues that have the highest priority for NPA conditionality are

- Reform of hiring firing, and overtime regulations in the labor market
- The administrative and tax burdens imposed on importers and exporters through the 'Guichet Unique'
- Elimination of business licenses currently required for foreign-owned firms

USAID's efforts to improve the policy environment provide direct relief to SMEs now Such efforts will also help MSEs however by reducing public-sector barriers to their eventual growth into SMEs

USAID could also help SMEs by improving donor coordination and training Donor assistance should be coordinated so that their subsidized efforts to create economic activity do not displace successful SMEs Finally, USAID could develop management training modules and encourage local private-sector groups to deliver the modules on a fee-for-training basis

Recommendations related to agricultural and rural enterprise credit are based on USAID's relative success as compared with other donors in its three generically different financial service projects All three of these projects are in the semi-formal sector, which is defined as all legally recognized financial institutions that are not legally regulated by banks The first, WOCCU provides rural and MSE financial services through credit unions Established in 1989, this project has grown at more than 100 percent per year since 1990 It is surpassing its project-defined goals concerning number of credit unions organized, number of credit union members, total assets, and member deposits Lessons learned from this project and recommendations related to SO2 include

- Strong depositor demand for a safe, accessible savings account In June 1995, deposits of credit union members in the credit union system totaled 157 million F CFA, and outstanding loans to

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

members totaled 73 million F CFA. This is particularly noteworthy growth because savers have lost 28.2 billion F CFA in deposits from four failed banks since the end of 1992. The need for deposit safety plus the rapidly growing number of credit unions, which totaled 50 in June 1995, suggests that USAID should continue to pursue the goals of training, sound operating practices, establishment of a central financial clearing facility for credit unions, and an improved legal and regulatory framework for credit unions in Niger.

- WOCCU's policy of paying zero percent interest on deposits also testifies to the ability of a reliable financial institution to mobilize savings. Yet a positive interest rate on savings will help insure the continued growth of credit union assets. Positive interest rates on savings deposits will also hasten the ability of the credit union system to support a central financial clearing facility. Such a facility should be established as quickly as possible to safeguard savers' deposits, and, consequently, help improve confidence in the credit union system and the system's ability to mobilize savings.
- Credit unions can improve their assistance to borrowers by helping members develop business plans for projects to be financed and more reliably determine a borrower's capacity to repay loans.

The second USAID funded project, CLUSA/SICR, acts as a broker between commercial banks in Niger and rural cooperative organizations. The banks hold as assets loans that they make to cooperative groups. The cooperative groups, in turn, on-lend their borrowed funds to their individual members. This system is particularly appealing to banks for three reasons. First, it enables banks to utilize the relatively low operating cost structure of CLUSA/SICR to make loans. Second, it gives banks, which have little understanding of the rural sector, the ability to use SICR's expertise in lending for rural economic activities. Third, the system gives banks loan security through Nigerien court recognition of cooperative groups' liability for any debts they incur. Court recognition of debt liability is very unusual in Niger and consequently, it is a very important way for banks to collateralize loans.

Conclusions and recommendations related to SICR include:

- SICR's MIS system monitors loans effectively, but it is ineffective at tracking SICR's operating costs for making and servicing loans.
- Kokara, a collective which has line responsibility for developing and managing SICR's loan portfolio, has a continuing conflict with SICR's management. Kokara, which has no management expertise, considers itself the candidate to take over the project after USAID funding terminates, and it lobbies for the self-interest of its loan officers. For example, it wishes to have SICR pay loan officers straight salaries without commissions for satisfactory loan performance. Moving incentives further away from loan performance is likely to damage SICR's profitability. The danger of improper incentives to loan officers is illustrated by SICR's recent performance. In early 1993 its loan recovery rate at 90 days was 97.3 percent – the best recovery rate of USAID's three rural financial services projects. Encouraged by these high recovery rates, SICR made four very large loans representing 25 percent of its portfolio. All four loans defaulted, dropping SICR's overall recovery rate to 87.9 percent in 1994.
- Historical frustration with bank unwillingness to lend to cooperatives has left SICR management with a view that banks are to be shunned whenever possible. Yet three of the four commercial banks in Niger suggest that they need an intermediary institution such as SICR if they are to lend to rural and MSE borrowers.
- Circumstances suggest that the best way to mobilize bank liquidity for rural lending is through SICR, provided SICR's line and staff responsibilities are under separate management authorities.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

USAID's third rural credit project is CARE/BRK, a finance company established to make rural loans. CARE/BRK's loan recovery rate is disastrous – almost half of its outstanding debt of 661.2 million F CFA is unrecoverable. Its loan origination and servicing procedures are weak. Moreover, both its practices and Niger's legal system prevent effective collateralization of loans. Unlike SICR, which is able to provide banks with assets of cooperatives as legally recognized collateral for loans, virtually all other forms of collateral are treated equivocally by Niger's legal system. At present, BRK appears to have virtually every type of internal weakness, plus the inability to collateralize loans effectively. In addition, BRK's poor performance was not recognized quickly due to USAID's irregularly timed and frequently partial audits.

Conclusions related to all three projects include

- None of these projects, nor those of any other donor, are sustainable because their lending rates do not cover both their operating costs and the cost of capital.
- All evidence in Niger suggests that demand for loans would remain strong at lending rates that would insure the sustainability of USAID's projects.
- Evidence in Niger suggests that women borrowers are denied access to credit whenever credit is rationed rather than offered at market rates of interest. A growing body of evidence in Niger and elsewhere suggests that women's economic activities are profitable, that they are able to pay the full cost of obtaining financial services, and that they are more likely to have access to credit when it is provided at full cost rather than at subsidized rates.
- The demand for loans is concentrated in commerce, i.e. wholesale and retail trade, rather than in agriculture, manufacturing and other commodity-transforming activities. Loans and loan repayment should not be tied to the purchase of certain products such as water pumps, carts, or NRMS projects and loan pay-backs should not include an extra-large payment that constitutes forced savings.
- Government institutions create a hostile regulatory environment for enterprises which would otherwise be more-frequent borrowers. Particularly notable offenders include the Ministry of Labor which makes it virtually impossible for enterprises to recruit and dismiss workers based on competence and other performance criteria.
- Subsidized credit provided by various donor projects prevents all financial-sector projects from raising loan costs high enough to insure sustainability.
- Donors as a group need to establish operational principles for project sustainability, annual financial audits as a diagnostic tool, standards for guaranteed funds, and efforts to improve the financial sector's ability to collateralize loans and to monitor and reduce adverse public sector regulations on rural enterprises.

Formal sector liquidity, which is estimated to be \$66 million, is recommended to be mobilized through semi-formal financial institutions. Currently the formal sector is comprised of four banks, one of which focuses exclusively on credit for commercial transactions between Niger and Libya. Up to October 1993, the three commercial banks invested principally in BCEAO bonds. At that time, the BCEAO limited the amount of funds member banks could invest in these bonds in order to encourage commercial banks to lend funds for private sector activities. These banks now must choose between down-sizing and domestic lending. The commercial banks, however, recognize their lack of understanding of rural enterprise activity and are willing to consider hiring organizations such as SICR.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

to originate and manage loan portfolios in rural areas. Hence, rural sector access to formal-sector liquidity is likely to be best achieved using semi-formal sector intermediaries.

One recommendation is for USAID to supply one or more of the commercial banks with a lending specialist who has extensive experience with MSEs. USAID should provide some or all of the costs of employing, equipping, and training this individual in order to help the commercial banks establish working relationships with financial intermediaries that can place loans in rural areas.

The informal sector does not appear to be subject to institutional credit management. It is vibrant, creative, and sustainable, but it is highly dependent upon personal relationships. Savings are mobilized primarily through tontines and moneykeepers, non-mobilized savings are held in cash or invested in livestock, or other rural assets. Credit in the informal sector usually involves barter rather than cash transactions. This feature, plus the highly personal manner in which credit is allocated in this sector preclude resource allocation based on expected rates of return. Hence, capital required for transformation industries or production are likely to originate in the formal or semi-formal sectors. Thus, USAID's efforts to strengthen the semi-formal sector appear most appropriate. It is this sector which has demonstrated an ability to mobilize savings in the rural sector and to be considered by banks in the formal sector as possible intermediaries for on-lending formal-sector resources into the rural sector.

Continued both growth and organization of semi-formal financial institutions is needed to mobilize rural savings and formal sector liquidity for loans to rural enterprises. USAID's work in the financial sector has identified one type of institution that mobilizes savings well, the WOCCU credit union system, and another type of institution that is particularly effective at rural lending by brokering the funds of formal sector banks, that is, SICR. What is now needed is to merge these successes into one type of organization. Without rapid identification, promotion and growth in whatever type of institutions can best achieve these objectives, rural savers, who save between 6 and 25 percent of their annual incomes, will continue to be forced to invest primarily in livestock for drought protection and to depend on local contacts for crop loans. Moreover, non-farm activities that require credit in the form of cash rather than through bartered transactions, are not likely to find credit. Finally, the formal financial institutions are likely to return a large portion of their assets to depositors in an effort to down size.

Annex B summarizes a simulation model that was developed as an ancillary activity to the work of this study team. The model is intended to estimate the production and economic impact of gradual implementation of a variety of natural resource management activities. These activities include, for example, application of water harvesting, organic and chemical fertilizer, managed fallow, animal traction and field trees.

This model, like other simulation models, is a tautology. That is, it assumes a series of explicit conditions needed to achieve a goal, and then it traces the rate at which these conditions achieve the intended goal. Generically, simulation models generate suspicion because they are "black boxes" which can only be understood and evaluated through careful study. As a consequence, the models are not very helpful when seeking consensus on policy issues. They can, however, be very useful instruments for teaching relationships between variables embodied in various subsystems. As a consequence, this model is suggested as a means to develop and implement monitoring and evaluation methodologies.

Finally, all of these recommendations apply to the short and intermediate term, that is, perhaps the next ten years. Within this ten-year time period, program activities related to SO1, particularly family planning, must reduce population growth. Otherwise the gains likely to be achieved during the next ten years will be eroded by the demands of a population that is not likely to be supportable by available resources.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

Preface

The field work for this study was conducted in Niger during the period August 10 through September 9, 1995. The core team included Dr. Allen LeBel (KPMG), Joe Tabor (KPMG), Jerry Brown (USAID), Tom Lenaghan (DAI), and Olaf Kula (DAI). They were assisted by local consultants Maina Boukar (Maina Boukar Consulting Services) and Dagra Mamadou (?). Dr. Kjell Christophersen (IRG) worked particularly closely with Joe Tabor (University of Arizona) to prepare a simulation model that describes possible scenarios of agricultural production in Niger. This simulation is contained in Annex B of this report. It was also submitted as a stand-alone report by the International Resources Group, Ltd.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

Glossary of Terms

AFVP	Association Francais des Volunteers de Progres, Niamey
APOR	Action pour la Promotions des Organisations Rurales
ASDG (SDSA)	Agricultural Sector Development Grant (USAID/Niger)
CLUSA	Cooperative League of the USA
DANIDA	Cooperative Danoise
DPM	Disaster Preparedness and Mitigation Project, USAID
FAC	Food and Agriculture Organization of the United Nations
FAO	
FCFA	Franc Communauté Financière Africaine
FED	
FIDA	International Fund for Agricultural Development (IFAD)
GIS	geographic information system
GON	Government of the Republic of Niger
GPS	Global Positioning System
GTZ	German Development Agency
ICRISAT	International Crop Research Institute for the Semi-Arid Tropics
IFAD	International Fund for Agricultural Development, Rome (FIDA)
IFPRI	International Food Policy Research Institute
IIMI	International Irrigation Management Institute (Institut International de Management de l'Irrigation)
IUCN	The World Conservation Union (UICN)
MH/E	Ministère de l'Hydraulique et de l'Environnement
NGO	Non-governmental organization
NRM	(improved) natural resource management
ONAHA	Office National des Aménagements Hydro-agricoles
OPVN	Offices des Produits Vivriers du Niger
ORSTOM	L'Institut Français de Recherche Scientifique pour le Développement en Coopération
PNGRN	Programme National de Gestion des Ressources Naturelles (World Bank)
PNUD	(UNDP)
SDSA	(ASDG)
SIM	Système d'Information sur les Marchés, OPVN
SNV	
SOMEA	Società per la matematica e l'economia applicate, Rome
UICN	Union mondiale pour la nature (IUCN)
UNDP	United Nations Development Program (PNUD)
USAID	United States Agency for International Development

I. Introduction

The members of the team were

Allen LeBel Team Leader, KPMG	PhD Economist Director of Research for Washington Investment Corporation and International Futures Corporation
Joe Tabor Production Agriculture Specialist, KPMG	Associate Researcher, Office of Arid Lands Studies, University of Arizona
Merle Galloway Project Financial Sector Research Assistant	Undergraduate in Accounting at Florida A&M Intern at the United States Agency for International Development, Niger
Jerry Brown Agribusiness Advisor, USAID/Africa Bureau	Office of Sustainable Development and Agribusiness Unit
Tom Lenaghan Micro-enterprise specialist, DAI	
Kjell Christophersen IRG	Senior Manager, Ph D Economist
Olaf E Kula Specialist in Small and Medium sized Enterprise Development	Consultant
Maina Boukar Moussa Dagra Mamadou	Economic Consultant, Niamey, Niger Legal Consultant, Democratization

II. Methodology

The study involved a literature review and briefings in Washington, D C and field work in Niger during the period August 10-September 9, 1995 The field work required extensive interviews , compilation of primary data collected in country from GON and NGO organizations Use of topic guides for small surveys and other methodological techniques used by selected team members are referenced in relevant sections of the report

III. Findings

A. Macroeconomic Issues of Rural Growth

LES RESULTATS MACRO-ECONOMIQUES DE LA CROISSANCE DU SECTEUR RURAL AU NIGER

1 Poids du secteur rural dans la production et dans l'emploi

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

Au Niger, l'agriculture constitue la plus importante activite economique par le poids qu'elle represente dans sa contribution a la creation de la richesse nationale et dans l'emploi. En effet, au plan de son apport au PIB, l'importance relative de la production du secteur rural, malgre une certaine modification intervenue au cours des differentes periodes du developpement economique du pays, est demeurée significative. C'est ainsi qu'elle est passee de 85% du PIB dans la periode 1962-1967, periode de forte croissance arachidiere, a 73% dans la periode 1968-1974 correspondant a la secheresse, puis a 52% dans la periode 1975-1983 dit de "boom de l'uranium".

En 1993 la production du secteur rural represente 44% du PIB. En plus autour de ce secteur gravitent une multitude d'activites de services et de production grâce auxquelles vit une grande partie de la population rurale, notamment la frange la plus pauvre.

Selon les resultats de l'enquête nationale sur le secteur informel et la petite entreprise realisee en Juin 1987 et Mars 1988, les activites informelles sont exercees en milieu rural par environ 50% des chefs de menages occupes hors agriculture (cf tableaux N°1 et 2).

Tableau N°1 sur l'evolution de la contribution de la production rurale sur le PIB de 1987 a 1993 (en millions de francs CFA)

		1987	1988	1989	1990	1991	1992	1993
PIB (au prix courant)		532 966	546 016	546 697	554 807	558 264	557 668	554 872
Production	Montant	207 844	220 440	214 042	232 217	241 638	244 325	244 242
	Rurale en %	39,0	40,4	39,2	42,0	43,3	43,8	44,0
Agriculture en %		22,6	25,0	22,8	24,6	26,1	26,2	25,7
Elevage en %		12,4	11,4	12,0	12,9	12,7	13,1	13,7
Pêche et forêt en %		4,0	4,0	4,4	4,5	4,5	4,5	4,6

Source : les comptes economiques de la Nations Comptes provisoires 1992 et 1993 Mai 1994 et 1995

Tableau N°2 sur l'evolution de l'emploi au Niger

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

	1985	1988	1990	1992	1995 (h)	1995 (b)
Population (M hab)	6,5	7,2	7,9	8,4	8,9	8,9
Population active* (M hab)	2,9	3,2	3,5	3,8	4,2	4,2
Salaries publics (tous)	35 400	39 100	41 300	42 100	42 000	41 000
Salaries para-public**	14 500	15 000	13 000	12 500	8 000	9 500
Salaries prive moderne**	14 000	18 000	15 000	11 500	25 000	20 000
Chômeurs***	45 000	53 500	58 800	63 700	39 000	68 000
Actif informel urbain	324 390	356 539	395 792	433 128	523 012	418 409
actifs informel rural	2 505 209	2 747 580	3 025 907	3 282 355	3 528 098	3 629 400
<p>* le taux d'activite est augmente de 40% par rapport au RGP, pour compenser le taux d'activite trop bas des femmes</p> <p>** il s'agit d'estimations qui corrigent vers le haut les donnees des declarations des employeurs (Direction Emploi) et vers le bas les declarations des travailleurs (RGP)</p> <p>*** estimations a partir des donnees du RGP de 1988, comprenant les personnes en recherche du premier emploi et les chômeurs enregistres</p>						

Sources Direction de la Statistique, Direction de l'Emploi, Ministere des

Finances

Comme il ressort du tableau N°2, le secteur rural constitue le plus important gisement d'emploi (en moyenne les actifs ruraux representent plus de 85% de la population active)

Au Plan de la securite alimentaire, le secteur rural reste le principal fournisseur en particulier pour les produits cerealiers En 1992 l'apport de la production du secteur rural dans l'approvisionnement du pays en cereales a represente plus de 95% En outre, apres le secteur de l'uranium, ce sont les activites agro-pastorales qui constituent les principales sources d'exportation

DRAFT USAID/NIGER Economic Reform and Microenterprise Program
 du pays En 1993 celles-ci ont represente 23% de la valeur totale des exportations (cf tableau N°3 et N°4)

Tableau N°3 Principaux produits d'exportation et evolution de 1987 a 1993 (en tonne)

		1987	1988	1989	1990	1991	1992	1993
Exportations totales		31 757	61 881	86 224	147 567	152 004	141 707	114 236
Uranium	quantite	2908	6587	65 53	70 34	29 63	29 63	29 69
	en %	9 1	10 6	7 6	4 8	1 9	2 1	2 6
Production rurale	quantite	21 157	45 973	68 132	128 746	135 125	114 629	93 913
	en %	66 6	74 3	79 0	87 2	88 9	80 9	82 2
Produits d'elevage et de la peche	quantite	1808	16 371	15 644	33 956	76 618	59 391	57 632
	en %	5 7	2 6	18 1	23 0	50 4	41 9	50 4
Produits de l'agriculture	quantite	19 349	29 602	52 488	94 790	58 507	55 238	36 281
	en %	60 9	71 7	60 9	64 2	38 5	39 0	31 8

Sources Commerce exterieur Resultats definitifs 1987-1989-1990-1991-1992 et 1993

Direction de la Statistique et des Comptes Nationaux

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

Tableau N°4 sur les principaux produits d'exportations et evolution de 1987 a 1993 (en valeur millions de F CFA)

		1987	1988	1989	1990	1991	1992	1993
Exportations totales		93 863	85 941	77 710	76 939	78 348	71 742	62 535
Uranium	montant	85 343	74 928	65 324	63 706	56 251	50 328	45 865
	en %	91 0	87 2	84 0	82 8	71 8	70 1	73 3
Production rurale	montant	39 61	57 84	71 57	71 18	17 460	14 832	15 203
	en %	4 2	6 7	9 2	9 2	22 2	20 7	22 7
Produits d'elevage et de la peche	montant	649	3770	3466	3265	15081	12 746	12 460
	en %	0 7	4 4	4 4	4 2	19 2	17 8	19 9
Produits de l'agriculture	montant	3312	2014	3691	3853	2378	2086	1743
	en %	3 5	2 3	4 8	5 0	3 0	2 9	2 8

Sources Commerce exterieur resultats definitifs 1987-1988-1989-1990-1991-1992 et 1993

Il faut souligner d'autre part que le potentiel en terme d'accroissement et de diversification des productions, notamment en matiere d'exportation reste considerable dans le secteur. En effet, des nombreuses etudes, et en particulier la recente etude de la Banque Mondiale intitulee Niger Agricultural Growth Strategy study de Decembre 1994, ont montre que les principales cultures d'exportation comme le niebe et l'oignon ont connu une croissance significative de leur production respective depuis ces dernieres annees. La production du niebe a cru de 115 000 tonnes en 1985 a 400 000 tonnes en 1992. Celle des oignons est passee de 44 000 tonnes a plus de 170 000 tonnes dans la même periode.

Au plan de la production animale, le potentiel demeure tres largement sous exploite encore. L'exploitation de la viande et des cuirs et peaux constituent des opportunités certaines qui demandent a être valorisees. En plus le secteur rural recele des nombreuses autres possibilites qui pourraient renforcer le potentiel de diversification des exportations du pays. Il s'agit, en particulier, de la culture de souchet, du henne (actuellement exporte vers l'Algerie et la Libye), de la gomme arabique, des produits maraichers, de l'ail et le poivron tres implante dans l'extrême Est du pays.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

2 Les marches des produits agricoles

Les différentes réformes engagées depuis le milieu des années 1980, notamment la libéralisation des prix des produits agricoles, la suppression des monopoles et l'élimination progressive des subventions dans le secteur rural, ont facilité les activités du secteur privé dans le commerce des produits agricoles

Ainsi, ces réformes ont contribué au développement d'une certaine concurrence sur les marchés céréaliers avec l'apparition des nouveaux commerçants

Mais de manière générale, ce commerce privé ne concerne que les gros centres. L'approvisionnement des zones enclavées du pays dépend encore des initiatives villageoises (boutiques villageoises, achats communautaires etc) et des interventions des petits détaillants jouant un rôle appréciable mais qui demeurent peu développés

2.1 Le marché intérieur

Le marché intérieur des produits agricoles concerne principalement l'achat et la vente du mil, du sorgho, du riz et du maïs. Ces produits achetés auprès des producteurs en zone rurale ou importés principalement du Nigeria, sont vendus dans les centres urbains

Les perspectives de croissance de ce marché sont limitées, non seulement par la taille du marché mais surtout aussi par la dégradation des pouvoirs d'achat due à la dévaluation (alors que les prix ont connu des fortes augmentations, les revenus ont, en terme réel, baissé)

2.2 Les marchés régionaux (frontaliers)

La plupart des réseaux commerciaux des produits agro-pastoraux évoluent dans un espace transnational intégrant, principalement le Nord Nigeria alimenté par les cinq grandes places du commerce frontalier avec ce pays qui sont Diffa, Gaya, Konni, Maradi et Zinder, puis viennent les pays suivants le Bénin, le Ghana, le Tchad, le Mali, le Burkina, la Côte d'Ivoire et l'Algérie. Ces marchés régionaux absorbent environ 34 000 tonnes de niébe soit moins de 10% de la production de 1992 et 23 000 tonnes d'oignons soit environ 13% de la production de 1992

Il ressort de manière générale que, tant par le volume des transactions que par l'histoire, le Nigeria est le principal partenaire commercial du Niger dans la région. La demande de son marché est déterminante dans la nature des produits exportés par le Niger. Ainsi les exportations d'arachide se sont arrêtées au profit du niébe et du souchet, produits très demandés au Nigeria

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

La part du Nigeria dans l'ensemble du commerce extérieur du Niger se chiffre en 1993 à 21,74%¹ des exportations totales et 13,15% des importations totales tout juste après la France et le Japon

Dans le domaine des produits agro-pastoraux, le poids du marché nigérian est déterminant pour les exportations du bétail et du niébe qui constituent à eux seuls respectivement 99,84% en 1992 et 99,93% en 1993 des exportations totales du Niger vers ce pays. En plus, c'est sur le marché nigérian que s'écoule l'essentiel des principaux produits agro-pastoraux exportés. Il absorbe plus de 80% du bétail sur pied exporté, plus de 90% du niébe exporté et environ 90% des cuirs et peaux exportés.

Après le Nigeria, plusieurs pays africains sont concernés par l'exportation des produits agro-pastoraux, notamment pour l'oignon : la Côte d'Ivoire (55% des exportations), le Ghana (20%), le Bénin (15%) et le reste est dirigé vers les marchés du Togo et du Nigeria.

2.3 Marchés internationaux

Ces marchés ne concernent que l'exportation du Haricot vert dont la totalité de la production est écoulée sur le marché français.

3 Impact sur le secteur rural des perspectives de croissance sectorielle liées aux contextes nigérian et à la zone CFA

a Les perspectives du secteur rural

Comme il a été analysé plus loin, les produits ruraux comme le niébe, les oignons et les produits et sous-produits animaux (viande, cuirs et peaux) sont très recherchés sur les marchés africains, notamment ceux du Nigeria et des pays de la zone franc. Il est évident que toute modification intervenant dans le contexte de ces pays, en particulier la dévaluation du franc CFA et l'appréciation de la Naira auront des effets très positifs au plan du renforcement de la compétitivité du Niger par rapport à ces produits ruraux. Ce qui peut se traduire concrètement pour le secteur rural par un accroissement de ses ventes donc de son revenu.

b Les perspectives du secteur urbain

¹ Chiffres de l'étude sur l'estimation des échanges commerciaux Niger Nigeria Mars 1994 PASPE

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

Depuis la devaluation du franc CFA, l'evolution des indices de prix a la consommation montre une forte augmentation des prix des produits alimentaires qui representent, dans les centres urbains, plus de 50% des depenses des menages. Selon l'enquete sur le budget et la consommation des menages au Niger "phase urbaine" 1989-1990, les depenses alimentaires representent 50% a Niamey, 64,8% a Tahoua, 52,9% a Tillaberi et 58,8% a Zinder. Ceci a ete un facteur favorable pour le revenu des producteurs locaux. En effet, l'augmentation moins elevee des prix des produits locaux (le mil et le sorgho ont vu leur prix augmenter respectivement de 10 et 30% a ce jour) par rapport aux cereales importees (le riz et le mais importees ont connu respectivement une hausse de 40% et de 70%), a ameliore la competitivite des produits locaux. Ce qui va entraîner une demande plus accrue des cereales locales.

Mais ce constat doit être relativise car les producteurs locaux de ces cereales dont l'essentiel de leur revenu provient de la vente de ces produits verront, en même temps, leur pouvoir d'achat diminuer du fait de l'evolution des prix des produits importees qui a cependant ete beaucoup plus importante.

Dans leur grande majorite les hausses observees au niveau de ces produits sont superieures a 70% et les prix d'un grand nombre de produits de grande consommation (petrole, savon, piles, etc) ont pratiquement double (le prix du petrole lampant est passe du simple au quadruple).

c Impact du secteur industriel

Même si, d'une maniere generale, les relations avec le secteur rural et l'industrie restent encore faibles au Niger, il faut souligner que les quelques unites industrielles de transformation des produits agricoles ont connu une situation plus favorable avec la devaluation. C'est le cas de la societe de transformation du paddy en riz blanchi, Riz du Niger, qui a vu ses ventes accroître substantiellement du fait de la competitivite de son produit par rapport au riz importe achete en devise. C'est aussi le cas de SAHELIO, unite industrielle de transformation des produits fruitiers en jus de fruits, confiture et sirop.

Puisque toutes ces unites s'approvisionnent aupres des producteurs locaux (les producteurs du long du fleuve pour le riz paddy et ceux de Maradi pour l'approvisionnement en fruits), l'amelioration du niveau de leurs ventes et l'augmentation des prix de leurs produits respectifs (SAHELIO a augmente ses prix de 60%) se sont traduits par des achats plus importants de matieres premieres aupres de ces producteurs.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

Les perspectives favorables qu'offre la devaluation a ce secteur industriel incitent un accroissement consecutif de la production des matieres premieres agricoles utilisees par ces unites industrielles dont une part importante de leur capacite de production reste inutilisee a l'heure actuelle (SAHELIO tourne a 20% de sa capacite)

d Le secteur du tourisme

Malgre la baisse significative de ses activites due a la forte crise economique qui frappe le Niger depuis 1981 et aux problemes d'insecurite dans le Nord du pays, zone par excellence du tourisme pour les etrangers, europeens, en particulier, le secteur recele un potentiel de croissance considerable (cf tableau N°5)

Tableau N°5 sur l'evolution du nombre de touristes de 1989 a 1994

Annees	Nombre des touristes
1988 - 1989	2997
1989 - 1990	2791
1990 - 1991	2050
199e - 1993	250
1993 - 1994	540

Source Memoire de fin de cycle de BABA Ahmed Sandy 1994

En 1991, annee relativement favorable, le secteur a cree 620 emplois permanents et 111 saisonniers. Comme on peut le constater la relance des activites de ce secteur peut avoir des effets positifs, notamment en matiere d'emploi dans le secteur rural ou se trouvent les principaux sites touristiques et ou se recrutent les guides et autres travailleurs saisonniers. En outre, le developpement des activites touristiques peut contribuer a accroître le revenu du secteur informel en particulier les artisans producteurs des differents objets d'art tres demandes par les touristes.

Mais pour que ce potentiel de croissance touristique soit valorise de maniere optimale, il est necessaire et urgent de trouver une solution definitive au probleme de transport et particulierement le transport aerien dont les tarifs demeurent tres prohibitifs au Niger du fait de la situation de monopole de deux principales compagnies aeriennes (Air Afrique et Air France)

e. Mining

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

Despite roughly 30 years of successful exploration for gold in Niger, and discoveries of significant veins in the western region bordering Burkina Faso in the early 1980's by UN sponsored activities, little progress with mining development began until September 1993. Current breakthroughs in mining agreements are being spearheaded by a gold discovery in the Liptako area in 1985. This area is said to have attracted 20,000 artisanal miners who have succeeded in small gold panning operations. The GON turned this deposit over to one of its parastatals (ONAREM) for exploitation, but little progress was accomplished until ONAREM formed a joint venture with the Canadian mining company, Etruscan Enterprise, Ltd on September 16, 1994. On January 10, 1995 the GON granted this joint venture team a permit to explore and subsequently mine a fully specified area in the Liptako region.

This is the first concession that the GON has granted to a private sector group. The GON has divided virtually the entire area of the Liptako region into blocks for which mining concessions may be granted. Many internationally prominent mining companies are preparing bids on the concessions. By the end of October 1995 the GON is expected to have granted mining concessions to 10 or more of these companies. All concessions are expected to be to private sector corporations in accordance with the GON's apparent policy of implementing mining development exclusively through for-profit corporations.

Exploration results to date suggest that the mines will be open-pit. Mineralization is found in concentrations of 0.05 per ton of ore in large-scale deposits. The geology is well-known due to three decades of exploration in Niger mentioned above, with particularly intensive work accomplished in the 1980's by various donors.

Very conservative forecasts suggest the strong likelihood of one medium-sized mine on each of 10 sites. Once developed each mine might easily produce, on average, 150,000 ounces of gold per year. At the current price of gold, approximately \$385 per ounce, these 10 mines would have gross sales revenues of \$577.5 ml annually.

Economic impacts of the exploration and mining development process (that is, the pre-production phase) of the mines is likely to last approximately two years for each mine. During the first year, the exploration period, each company is likely to spend \$1.8 ml in exploration. Exhibit 2, Mining Sector Analysis, indicates that this translates into rural income of \$235,600 per mine. During the second year, the construction phase of mine development, each company is likely to spend \$2 ml in local markets and generate over \$1 ml in rural income.

Once running, each mine will contribute approximately \$37 ml to GDP annually. Five mines, each producing 150,000 ounces of gold per year, will add \$185 ml per year to GDP. This would raise the 1993 GDP estimate contained in Table 1 from 555 bl F CFA to 647 bl F CFA, an increase of 16.6 percent². All five mines would add perhaps \$0.5 ml to rural income in 1995, \$2.5 ml in 1996, \$5 ml in 1997 and continued growth in subsequent years to a plateau of perhaps \$16 ml per year.

Table 4 indicates that uranium, the current major export commodity from Niger, is estimated to have contributed \$91.7 ml to GDP in 1993 (45.9 bl F CFA). Hence, the \$185 ml expected from five gold mines in perhaps five years would be twice uranium's 1993 contribution to foreign exchange. Moreover, it will slightly exceed uranium's contribution to GDP of \$170 ml (85.343 bl F CFA) in 1987, the last of the highly profitable years for the mineral.

f. Industrial and Overall Impacts of Exchange Rate Changes

²/ The 50 percent devaluation of the F CFA that took place on January 12, 1994 is likely to increase the rate of growth of GDP at least for the next few years. If GDP without gold production is five percent higher in 1995 than in 1993, gold's contribution would be 15.8 percent rather than 16.6 percent.

**Exhibit 2
MINING SECTOR ANALYSIS
LIPTAKO PROSPECTS**

**Economic Impact of Five Gold Mines, Each Producing 150 000 Ounces Gold Per Year
(USING THE KOMA BANGOU CONCESSION AS AN EXAMPLE)¹**

	Annual Investment (One Mine)	Annual Investment (Five Mines)		One Mine (150 000 oz p a)	Five Mines (150 000 oz p a)
A Exploration (Year 1)			C Production (Year 3)		
1 Materials & Supplies			Gross Revenue	\$385 000	\$57 750 000
a Imported Materials Purchased locally	158 902		Operating Cost	0 4	\$23 100 000
Import Duty					
Subtotal			Operating Profit		\$34 650 000
Trade Markup			Cost per Ounce	\$154	
Subtotal			SG&A**		\$2 000 000
b Direct Imports	1 284 346		DD&A***		\$2 040 000
Import Duty			Training		\$20 000
Subtotal			Asset Writedown		
c Domestic Materials	35 013		Interest (Net)	5% of \$20mi	\$1 000 000
2 Transportation					
a Domestic	6 062		Pre-Tax Income		\$29 590 000
b International					
Subtotal			Taxes (40.5%)		\$11 983 950
3 Labor			Earnings		\$17 606 050
Domestic	125 595		Percent of Gross Revenues		0.30
Expatriate	142 184				
Local Expenditures			Earnings Distribution		
Total Expenditure	1 752 102		GON (10% of Shares)	\$1 760 605	\$8 803 025
GDP	267 779	1 338 896	ONAREM (23% of Shares)	\$4 049 392	\$20 246 958
Increase in Rural Income			Company Shareholders (67% of Shares)	\$11 796 054	\$58 960 268
1.4 x (domestic labor + 3 x Expatriate labor)\	235 551	1 177 753			

B. Construction (Year 2)

1 Materials & Supplies		
a Imported Materials Purchased locally	2 000 000	
Import Duty		
Subtotal		
Trade Markup		
Subtotal		
b Direct Imports	15 000 000	
Import Duty		
Subtotal		
c Domestic Materials	1 400 000	
2 Transportation		
a Domestic		
b International		
Subtotal		
3 Labor		
Domestic	400 000	
Expatriate	1 200 000	
Local Expenditures		
Total	20 000 000	
GDP	1 600 000	8 000 000
Increase in Rural Income		
1.4 x (domestic labor + 3 x Expatriate labor)\	1 064 000	5 320 000

^{1/} The Koma Bangou concession was granted on 1/10/95 & published as Decree # 95-08/PRN/MME on 2/3/95. It's area is 157.95 km square and has proven reserves on a six km square site to easily produce 150 000 oz p a. C

*GON Royalties of 5.5% Gold Sales

**Sales General and Administrative Expenses

*** Depreciation, Depletion and Amortization (includes 20% p a write-off of initial exploration costs)

GDP (Operating Profit 10% of operating cost) \$36 960 000 \$184 800 000

Increase in Rural Income (1.4 10% of operating cost)² \$3 234 000 \$16 170 000

D Government Revenues per Year

Royalty Payments (5.5%)	\$3 176 250	\$15 881 250
Corporate Income Tax (40.5%)	\$11 983 950	\$59 919 750
Labor Tax (10-15% Domestic Payroll)	\$780 000	\$3 900 000
Unemployment Taxes		\$0
Stockholder Shares		\$0
GON (10% of Shares)	\$1 760 605	\$8 803 025
ONAREM (23% of Shares)	\$4 049 392	\$20 246 958
Total Annual GON Revenues	\$21 750 197	\$108 750 983
Percent of Gross Revenues		0.38

^{2/} Village income is estimated at 1.4 times payroll income from mining. It can be from 1.4 to up to 1.8 times tradable* income in tight or slack labor markets respectively. Tradable income is earned from cash sales of agricultural output or earned income from non-village sources. See Glenn Rogers "Theory of Output Income Multipliers Application to Mauritania" University of Wisconsin Ph D dissertation 1986

alb\mining2_wk4

BEST AVAILABLE COPY

2500

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

In spite of substantial investment efforts in the 1970's, Niger's industrial base remains small. Apart from uranium mining, other major formal sector industries are textiles, food processing, chemicals, metal works, and paper products. These activities are part of the secondary sector which, with the subtraction of mining, accounted for 10.7 percent of GDP in 1993.³

Industrial exports other than uranium are minimal. As Table 4 above indicates, uranium and rural production accounted for 73.3 and 22.7 percent, respectively, of export earnings in 1993. This leaves just four percent of exports accountable to non-rural activity. Customs data indicates that this four percent is comprised mainly of cigarettes, textiles, sandals, used clothing and insecticides. Insecticides are normally classified as in transit for re-export.

Several factors suggest that naira devaluations have had a significantly negative impact on Niger's industrial growth. Data on Niger's foreign trade are very uncertain due to mainly to its porous southern border with Nigeria. Nigerians export livestock and cowpeas in exchange for small manufactured goods, gasoline and other consumer goods. Illegal trade and unrecorded trade in livestock and cowpeas is estimated at FCFA 29.4 bl. This amount is 28 percent of official exports and 225 percent of livestock and cowpea exports.⁴

Nigeria's impact on economic activity in Niger is due to its proximity, size and very volatile currency. Its population and economy are approximately 15 times those of Niger. As a consequence, domestic market prices for Niger's non-uranium exports are largely determined by Nigerian prices. Moreover, Nigeria's currency (the naira) fluctuates widely in relation to Niger's FCFA, largely due to Nigerian monetary policy. Yet Niger's membership in the UMOA precludes exchange rate devaluation as an adjustment policy.

Despite a fixed nominal exchange rate, Niger's real exchange rate fluctuated significantly in the 1980's. For example, it depreciated 15.2 percent in terms of Niger's major European trading partners during the period 1981-84. Then it appreciated 37.7 percent against the Nigerian naira between 1985-88.⁵ Higher priced European goods were non-competitive with domestically produced goods in Niger, and consequently domestic production in Niger was not stimulated. On the other hand, the devaluation of the FCFA against the naira is estimated to have resulted in a direct loss of FCFA \$13 bl per year in export revenues, the equivalent of 3.5 percent of rural incomes in 1987.⁶ This loss was mainly from reduced sales of livestock and cowpeas.

Both empirical and conceptual reasons suggest a need for Niger to develop trade policies to offset Nigerian currency devaluations and yet remain within the UMOA. Comparing GDP growth rates of FCFA countries, Devarajan and de Melo found that from 1960 to 1982 FCFA countries grew faster than their non-member trading partners. In 1990 they found that the reverse was true in the 1980s. On average, the real exchange rate in the non-FCFA countries depreciated by about 30 percent in the 1980s, and average annual export growth equaled 2.6 percent per year. During the same period, UMOA countries experienced almost no change in real exchange rates and annual export growth of only 1.5 percent per year.⁷

The conceptual argument for use of bilateral trade policies to defend against devaluation follows from the development of economic trade theory. In 1939 Samuelson proved that free trade is better than no

³/ IMF Niger Statistical Annex February 10 1995 p iii

⁴/ Paul Dorosh Niger Economic Fallout from a Uranium Boom in Adjusting to Policy Failure in African Economies ed David E Sahn Cornell University Press Ithaca NY 1994 p 170 C

⁵/ Dorosh Niger Economic Fallout p 178

⁶/ Doroch p 178

⁷/ Dorch p 181

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

trade, and Sckitovsky demonstrated in 1942 that, except in a very unusual case, it is always to a country's advantage to impose a tariff.⁸ Economists never proved that free trade is better than controlled trade. Consequently, limited trade established on the basis of carefully specified tariffs may have greater economic benefits for a country than free trade. Hence, research on possible use of tariffs to help counter negative impacts of trading partner devaluations is an important research priority.

A businessman's perspective on free trade was presented at the 1994 annual meeting of ADM Corporation. In the mid-19th century,

Bismarck was ruling Germany and was convinced by a well-educated Germany economist named De Brook to enact free trade in the farm sector of Alsace-Lorraine, as an experiment. So the farm sector was made a free-trade zone. Within a couple of years, all the nations surrounding the area dumped their surplus crops into Alsace-Lorraine, driving prices well below their cost of production. As a result, the farm community went broke. Twenty years ago the soy bean farmers in the U.S. couldn't agree on a program for soy beans because the cost to produce them varied so widely from north to south. So they opted for so-called free trade with a low loan rate as a safety net. It all sounded pretty good. Over the last 15 years, however, I observed the following: Ten million acres of soy beans disappeared from the U.S., while areas in Argentina and Brazil increased 14 million acres where land was cheaper and subsidized credits were available. An additional 18.7 million oilseed acres were planted in Canada and Europe again with heavy subsidies. Twenty-two soy bean factories were closed in our country, while 50 sprung up in South America and Europe. Our share of the world market of the soy bean market was cut in half. In fact, over 20,000 soy bean farmers left the business, and 50,000 jobs were lost at home.⁹

Niger did use import and export tariffs extensively until tariff rates were lowered on a large number of imported items in May 1987, reportedly as an effort to reduce tax fraud.¹⁰

4 Policy Requirements for Growth

a. *Financial Sector Requirements for Rural Growth (SO2)*

Priority areas for examination and change of economic policy follow from an overview of this study's findings in relation to strategic objectives two and three, that is, SO2 and SO3. The achievement of SO2 (increased market access primarily through use of improved, decentralized financial services) needs to be modified in order to strengthen its relation to SO3 (the promotion of sustained and widespread adoption of management practices to improve conservation and reproductive use of Niger's forests, fields, waters and pastures).

This study's findings suggest that phosphate deposits at Tahoua, Niger should be fully explored and exploited to rapidly develop agriculture. This phosphate resource is particularly important because lack of phosphate is the most critical constraint on plant growth where rainfall is 250 mm or more a year, and that is the case for much of Niger. Widespread use of the fertilizer is expected to convince farmers that agricultural inputs and conservation of land are worthwhile investments. This realization will create a conceptual demand for these inputs. SO related efforts to provide rural access to credit will help create

⁸/ P.A. Samuelson. The Gains from International Trade. Canadian Journal of Economics and Political Science (1939) and Tibor de Sckitovsky. A reconsideration of the Theory of Tariffs. Review of Economics and Statistics IX No. 2 (1942). The highly unusual case in Sckitovsky's proof is where a reciprocal demand curve for the country imposing the tariff is very close to being perfectly elastic.

⁹ /Comments by Michael Andreas. Vice Chairman of the Board and Executive Vice President. ADM at the 1994 Annual Meeting. Quarterly Report pp. 6-9.

¹⁰ /Dorosh p. 178.

Exhibit 4

**Development Strategy For USAID/Niger's
Economic Reform and Microenterprise Program***

I Agronomic Conditions in 1995	Hectares millions	Hectares millions
Arable land is 15 ml out of 128 ml hectares	15	15
Area cultivated (increasing exponentially with yields constant ¹)	7	9
Arable land seriously eroded	1.5	-4.5
	<hr/>	<hr/>
Residual arable land	6.5	1.5
Irrigable land	0.27	
Currently irrigated land	0.07	
	<hr/>	
Residual irrigable land	0.2	
II Proposed Growth Strategy	Sectoral Impact	Impact on GDP Growth
Exploit Gold Reserves at Liptako New totally private sector activity	\$US 185ml/yr in 2000 \$US 16 ml/yr rural incomes	17% increase ² 1.4% increase
Exploit Fertilizer Reserves at Tahoua USAID technical assistance for Phosphate mine development & Transition to cash input farming	25% Increase in Crop Production Reduced Crop failure in droughts	6% increase ³
Demonstration effect To encourage use of	Improved seeds Water harvesting Nitrogen fertilizer (NRMs) Improved animal production	2% increase ⁴
Devaluation Stimulus to Niger/ Nigerian Trade	Rural Income Effect Stimulation of Agro-processing Non Farm enterprise	3.5% increase ⁵
Micro & Small Enterprises Produce unrecorded GDP equal to 50% of GDP in production & services		
Redesign macroeconomic Trade relations Develop defenses against Non FCFA zone devaluations	Improve markets for Rural traders	
Agricultural marketing Better Storage Private Sector Seed Production Better market information	Can increase Millet & Cowpea Production 10% & 20% Respectively	1.25% (i.e. 5% of Crop Production) ³
Rural credit Mobilize \$88 ml bank reserves with semi formal intermediaries and USAID bank training Credit now available to 2% of rural sector	Complements Rural Income Effects of Gold Fertilizer and F CFA Devaluation Facilitates Business Expansion Possible from Devaluation	

1/ Area cultivated grew at 5.6 percent p.a. from 1984-94. See Annex F3

2/ Uranium contributed 2.6% of GDP in 1993 down from 13.1% of GDP in 1984 when demand was still strong for the mineral

3/ Crops were 25.7% of GDP in 1993 which is estimated at \$US 1.1 bl

4/ Animal husbandry contributed 13.7% to GDP in 1993

5/ This increase due to devaluation of the F CFA equals the loss estimated to result from an almost equivalent appreciation of the F CFA/Naira during 1985-87

Preliminary results of a Barents/KPMG & DAI sector assessment of Niger's rural sector. Draft date is 10/30/95 file is strtagy4.xls

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

the effective demand for these inputs, but this effort is insufficient for creditors. Lenders view farmers as high risk clients because of the variability of weather, uncertain commodity prices when harvests are bountiful, and possibly monopolized commodity pricing. Formal sector lenders also lack the expertise to do business with rural borrowers.

Any financial sector draws its strength from both the capability of the entrepreneurs it serves and the strength of the markets that these entrepreneurs serve. In Niger, these relationships are complicated by very seriously depleted natural resources, poor agricultural practices and serious droughts that occur every ten years on average. The financial sector is naturally reluctant to provide credit in this context. Agricultural inputs might be destroyed by draught, insects or disease, or wasted by poor farm management. Even if weather and other aspects of production perform well, market prices may collapse to such an extent that revenues from good yields are still too meager to repay the financial sector. Such a scenario impacts non-farm enterprises by weakening purchasing power and, consequently, their rural markets. Again, this places the financial sector at risk.

Hence, the financial sector and its business partners, that is, farm and non-farm rural enterprises, are interdependent. They must be strengthened together. Moreover, both the financial sector and enterprises depend on macroeconomic policies. Changes in interest rates, for example, will impact agriculture, natural resource improvement, non-farm enterprise development, marketing and credit.

SO2 must address all the issues related to creation of effective demand in order for agricultural inputs to be successful. Once success begins, efforts related to SO3 can help manage the introduction of other agricultural inputs and conservation practices in a sequence based on their agronomic importance.

Macroeconomic policy can assist with the achievement of SO2 in two ways. First, it can help encourage the formal banking system to extend more credit to farmers and the rural sector as a whole. Elimination in October 1993 of the ability of banks to receive high returns by keeping their loanable funds in Central Bank (BCEAO) bonds was a first step in this process. Now formal sector financial institutions have excess loanable funds earning little or no interest. They are likely to decide soon to downsize or to lend these funds in new markets. The rural sector is an important applicant for these funds, and so macroeconomic policies need to be devised that will encourage bank lending to meet rural credit needs.

Second, macroeconomic policy needs to promote free and open markets for agricultural commodities. Poor transportation and storage, inadequate market information, crop loans from informal sector lenders coming due at harvest time, potentially monopolized commodity markets and very volatile exchange rates with Nigeria reduce farmer ability to maximize farmgate prices at harvest.¹¹ SO2 can help with some of these problems, but macroeconomic policy, interpreted broadly, is perhaps the only possible way to address possible monopolization of commodity markets and Nigeria's currency fluctuations.

Macroeconomic policy can perhaps improve commodity markets in two ways. First, it could help implement any research findings that suggest ways for third parties to bring buyers and groups of

¹¹ / A study of Maradi, Zinder and the five other important zones where traditional staple crops are grown indicates that millet and sorghum prices normally peak in July, decline during the harvest months of August through November and begin rising in December toward their annual highs in July. These price variations were sufficient in the 1989/90 and 1990/91 seasons for retail grain traders to make estimated gross margins of between 30 and 80 percent. In exceptionally bountiful years such as 1986 and 1987, the prices of both millet and sorghum dropped to a 10 year low of 20 to 25 F CFA/kg in the zones of Maradi, Zinder and Dosso. This price decline occurred during a period of active GON price support policy which was conducted through OPVN and is cited as an example of the failure of such policies. The study points out further that large grain buyers use 38 collection networks in Maradi and 10 in Zinder. The managers of the networks set maximum prices that buying agents are allowed to pay for grain each year. See *Characterization of Instability in Niger's Cereal Markets*, pp. 38 and 60.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

farmers together for commodity transactions. Third party efforts could encourage forward sales between Nigerien farmers and Nigerian buyers, for example. Incentives could be created for third parties to do this work, with the stipulation that the third parties act only as brokers. They should never act as principals, that is, they should never be allowed to purchase commodities for their own account or to hold commodity inventory. Holding inventory involves the form of speculation that invariably seems to destroy commodity boards.

Third, macroeconomic policy can explore ways to reduce monopolistic constraints on commodity markets and negative impacts of Nigerian devaluations. Possible ways include flexible import and export tariffs. Such tariffs would be adjusted by committee based on regular review of real exchange rates. Once a successful system is tested, it could be used in all the UMOA countries to systematize their trade relations with countries outside the FCFA community. Any tariff system should perhaps be implemented only if a third party corporation administers the system and collects the duties. Zambia and other African countries use such third parties.

An export tariff on commodities is a particularly interesting research topic because it could encourage more informal trade between Niger and Nigeria. That is, the tariff would raise the cross border cost of commodities traded through the formal sector. At the same time, the porous border with Nigeria would permit cross border trade at prices that are not marked up by the cost of the tariff. Tariff regulations might also exempt small traders from paying duties. The difficulty, of course, is to avoid abusive use of exemptions by large traders.

Finally, multiplier impacts of fertilizer use can be used to encourage the GON to invest some of its foreseeable profits from gold mining, a resource depleting activity, into phosphate fertilizer, a resource restoring activity. Possible roles in the development of Tahoua would be

- USAID could fund an initial management study that would identify exploration, reserve definition and other tasks required to bring the Tahoua reserves into production under private sector control. The study would also develop a time schedule for each task.
- UNDP could finance exploration and overview measurement of reserves in sufficient detail to elicit private sector bids for permits to define reserves fully and to mine the reserves within a specified time period, provided minimum quantities of reserves are found.
- The GON could set aside funds for loans to small firms to distribute fertilizer and provide minimal extension services to farmers who buy the fertilizer. Funds are also needed to study the most appropriate way to package the fertilizer for farmer use. Farmers complain about wastage during application. Tahoua phosphate is applied as a powder that frequently appears to be blown offsite by the wind.
- USAID could provide training to the entrepreneurs who successfully compete to distribute the fertilizer, and to the trainers who teach the small firms extension techniques.

b Illustrative Activities/Sectoral Adjustments for SO2

(1) Rainfed Agriculture

Macroeconomic policy may provide a partial solution to improvements in commodity markets, but farmers must be encouraged to diversify away from the traditional staple crops, millet and sorghum, as fertilizer and other management practices improve productivity. For example, traditional cash crops of cowpeas and groundnuts should be analyzed further for potential economic viability. Cowpeas have a comparative advantage in zones of moderate rainfall such as Tanout. In zones of heavier rainfall, such

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

as Magaria, they suffer extensive insect and disease damage Niger's cowpea yields could increase substantially with use of improved seed and fertilizer as well as careful pest and disease control Currently, farmers customarily use last year's harvest as seed and have no other inputs The domestic regional and external market for cowpeas is discussed in Section III C , Agricultural Marketing

Peanuts are also important as a cash crop and as a source of oil and meal for both human and animal consumption Strong demand exists for peanuts and their derivatives in Nigeria as well as Niger Opportunities for small enterprises to agro-process peanuts are discussed in detail in Section III D , Small and Microenterprise Development

Inadequate soil fertility is constraining plant growth where rainfall is 250 mm or more, as noted above Phosphate fertilizer and weeding appear to be the most effective ways to increase yields in this low rainfall environment Exploitable deposits of rock phosphate exist in Tahoua and in Tape, as noted earlier However, the deposit at Tape is within the Park W game reserve and, consequently, may not be exploitable Phosphate fertilizer production and distribution at Thai might be very promising activities for small enterprises

Currently, farmers complain that much phosphate fertilizer is wasted during its application It is delivered as a fine powder and is sometimes blown by the wind to unintended locations This complaint seems solvable through better information and technology, especially since the powder is very effective ergonomically It could perhaps be pelletized or banded with seeds at planting Soil fertility constraints on plants and phosphate fertilizer development and promotion are discussed in detail in Section B , Agricultural Production Management Through Drought Cycles

Hybrid sorghum research conducted at ICRISAT provides small enterprise opportunities for seed multiplication and distribution A similar opportunity is likely to occur for millet within five years The enterprises that distribute seeds can also provide extension services to insure that farmers use the seeds effectively Private sector production and distribution of seeds is discussed in Section III C, Agricultural Marketing

Research suggests that water harvesting is likely to increase yields on currently used land and help reclaim crusted soils that are no longer considered arable¹² Annex C contains a model that derives potential benefits from widespread use of water harvesting, by itself and in combination with other natural resource management activities Farmers in Tarodi, a village within 60 km of Niamey, are rapidly adopting water-harvesting practices The practices are particularly appealing due to their low cost and durability Only labor is needed, for example, to construct U shaped dams 30 mm high on gently sloping fields Yet the dams, once constructed, are serviceable for many years, provided that they receive periodic low levels of maintenance

Strategic ways to promote water-harvesting include

- Promotion through private companies that begin to multiply and distribute hybrid seed and fertilizer
- Promotion through the GON extension service
- Promotion through Peace Corps efforts and NGO activities
- Promulgation over TV and radio

Agricultural credit does not appear necessary for water-harvesting since it requires only labor inputs, and the inputs can be delivered during labor surplus periods of the year Credit for water-harvesting is

¹²/ Joseph A. Tabor Improving Crop Yields in the Sahel by Means of Water Harvesting Journal of And Environments (1995) 30 83-106

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

likely to be justified only if it is defined as one of a combination of inputs needed to produce a cash crop for which prices are forecasted to be sufficiently high to justify the proposed input package

(2) Irrigated Agriculture

Though yields are declining on rainfed land as farmers avoid use of cash outlays for inputs, both yields and input use are increasing on irrigated land¹³ This is partly due to GON and donor subsidies of inputs for irrigated agriculture and partly due to reduced crop risk that results from management of water supplies These conditions reflect the lower danger of crop loss from drought as compared to irrigated agricultural land Hence, the financial sector might find input loans for irrigated lands profitable, provided strong markets exist for crop production

Irrigated land is used predominantly to grow rice during the dry season Rice remains the only crop that is still marketed by a GON parastatal This practice both complicates assessments of profitability and reduces the impact of market prices of alternative crops on farmers' planting decisions

After the rice is harvested in May and June, farmers use the drained paddies for manioc Manioc is an easy-to-store, low-value cash crop that requires virtually no attention after it is planted Hence, farmers can plant it and shift their labor to millet, sorghum and other crops on their rainfed lands in June Manioc depletes the soil of nutrients, but it does well on the fertilizer residuals in the irrigated areas

Onions are the major dry season, irrigated, high-value, cash crop They are grown predominantly in one locality but are considered to be extremely successful due to strong demand in Niger and other regional countries Potatoes, garlic, lettuce and tomatoes are also grown on irrigated land during the dry season, but their market is very limited

The pursuit of financially sound projects for irrigated land should include analysis of ways to

- Expand the success in onions to other cash crops while differentiating between risk involved in crops that are non-perishable (cotton), perishable within several weeks (bananas) and more perishable (truck farm fruits and vegetables) Urban markets and new markets, such as those likely to be created by mining activity, will strengthen the demand for these commodities USAID has already completed feasibility studies for more promising fruits and vegetables Importers in other countries should provide seeds and cold storage to farmers, supervise grading and pay at least half of CIF charges for transportation These practices will reduce misunderstandings between farmers and external buyers and justifiably remove a portion of the marketing risk from farmers
 - Create transformation enterprises such as drying and canning for high-value, perishable cash crops for which a strong demand exists regionally or overseas
 - Expand irrigation systems Current systems are difficult to manage partly due to the small size of farm plots The allocation of 0.2 to 0.3 hectares on the earlier schemes has been raised to 0.5 hectare per farmer Water management problems persist, but perhaps they could be reduced if individual farmer groups had more control over the water allocation process Nevertheless, bankable projects may include private sector irrigation schemes of 5 to 10 hectares

Other benefits of irrigated agriculture include

- Regular and substantial use of fertilizer will strengthen the likelihood of small enterprise success with fertilizer production and distribution

¹³ Fertilizer use on irrigated land has increased at ___percent per year between 1982 and 1992 Moreover use of hybrid seed has increased

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

- Likely willingness of farmers to purchase carefully developed seeds will contribute to private sector success with seed multiplication and distribution

(3) Livestock

Livestock production, but not agriculture, can become more productive in the north and generally in areas where rainfall is less than 400 mm year Recommended improvements include

- Official establishment of rangelands (terroirs detache) and passageways through agricultural lands
- Establishment of open wells (not boreholes) which self-regulate herd size
- Improved meat processing and marketing facilities to permit farmers to market their herds quickly during severe draughts
- Experimentation and adoption of new or recently introduced technologies such as meat drying

(4) Institutional Strengthening

(a) *Financial Institutions*

Both farmers and herders should be given access to modern and safe means to store wealth in the formal sector and encouraged to do so Reliable savings systems could have the dual purpose of helping farmers and herders recover from droughts more quickly and mobilizing savings for lending to farm and non-farm rural enterprises

(b) *Media Information*

Rain and commodity price forecasts are needed so that farmers can develop their crop plans prior to planting season Farmers also need information on seed, fertilizer and other input availability during planting season Radio or TV broadcasts of practical information, such as the benefits and distributors of ICRISAT's new hybrid sorghum seeds, could help both farmers and private seed companies

Continued broadcasts of price trends throughout the year could help farmers and cooperatives plan crop marketing strategies Price information is needed by regional and international markets as well as major domestic urban areas

Some broadcasting is done now, particularly on crop prices in various markets The information in broadcasts should be expanded to cover weather forecasts, credit and input availability, credit sources, commodity collection and transport systems, and sundry tips on farm management Moreover, the broadcast must be multilingual No such public information system currently exists, but data that may be sufficiently reliable is regularly collected AGRHYMET receives daily weather data from Niger's weather stations and produces a monthly publication that discusses

- Meteorological forecasts
- Recent rainfall by meteorological zone
- Impacts of rain, insects and disease on crop conditions throughout the nation
- Water levels in Niger's principal water basins

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

The System of Information on the Cereal Market of Niger (SIM) regularly collects price information on millet, sorghum, maize, rice and cowpeas. This price information reflects

- Prices per kilo that producers receive at local markets
- Consumer prices per kilo at local markets
- Quasi-wholesale prices per 75-90 kg sack of each commodity at each market

The information from AGRHYMET and SIM can serve as a data base for an expansion of current media reports. Steps to produce these reports include

- Review the quality and comprehensiveness of the data
- Develop a system to rapidly synthesize the data into relevant packets for broadcast
- Secure media time and sponsors such as seed and fertilizer distribution companies
- Secure announcers to broadcast the crop and price information in the required local languages

(c) Market Distortions

Numerous examples can be found of non-market interventions into private-sector markets that are not sustainable and which damage or destroy sustainable enterprises. NGO's are, for example, providing grants for cooperatives to develop peanut oil production that will compete with unsubsidized systems that are currently delivering peanut oil to this market. The existing system employs many women who take peanuts to small merchants for crushing and who then process the oil and meal cake that results from the crushing operation.

Donors are also providing fertilizer to farmers in the Niamey area at no cost other than the price of transport. This practice could limit the marketability of locally produced fertilizer. As noted above, the proposed plan is to encourage small-scale enterprises to exploit the fertilizer deposits at Tahoua and distribute fertilizer to farmers through the private sector.

Numerous studies of the cotton subsector report significant wastage of seed, fertilizer and water - all of which are heavily subsidized.¹⁴ Members of the study team report, by contrast, that onion farmers in the Maradi area have difficulty obtaining fertilizer, receive no subsidies for it, and use it very judiciously.

Efforts are needed to insure that GON and donor projects and policies do not damage the development of sustainable SMEs. Pursuit of dramatic short-term gains through subsidized input policies is a major way in which such damage can occur. This situation is particularly important to address because donors do not have the volume of lendable funds needed for them to be able to transform subsectors by themselves. Currently, virtually all financial institutions that are funded through donor projects are not earning sufficient profit to pay their operational costs. Hence, they are providing credit at unsustainably low rates of interest.

(d) Taxation of the Informal Sector

¹⁴See three summaries of cotton studies prepared as part of yet to be published PASPE research on several commodity subsectors. These summaries are: Laouali Ibrahim and Jacques Vayssie, "A Study of The Cotton Subsector," April 1990; Georges Conde, "Study of the Costs and Benefits of Insecticides on Cotton Production," 1990; and French Company for the Development of Textile Fibers, 1990.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

The informal sector is subject to at least one indirect tax, a transport tax. In addition, farmers are subject to weak product markets that significantly redistribute profits away from farmers toward the commercial sector.

Annex I lists customs fees and road taxes that a truck must pay as it travels from the boarder town of Jibiye, Nigeria to Niamey, Niger, a distance of 709 km. The analysis indicates that these charges amount to 20 percent of the total transportation cost of the trip.

Weak market prices at harvest, which are documented by SIM and discussed earlier in this section, are an annual event. Commodity prices for millet and sorghum peak in July and decline during the subsequent harvest period, which begins in August.

Policies that could be considered to reduce the disincentives to production that these two conditions create include:

- Eliminate informal customs fees and road taxes
- Eliminate tariffs on fertilizer imports
- Carefully rationalize the levels of authorized customs fees and road taxes
- Strengthen commodity markets at harvest by increasing storage facilities available to farmers

(e) Strengthen Project Appraisal Capability

USAID should provide lenders with technical assistance for preparing business plans. Use of the financial sector to on-lend funds for agricultural and other rural SME activities implies a need for lenders to guide and evaluate private sector formulation of business plans. Annex H contains an illustrative summary of a business plan for exportation of irrigated green beans. Entrepreneurs need to develop their own plans with contents similar to those contained in Annex H. Unless they develop the plans themselves they may not understand the business.

Financial institutions, however, should assist with development of business plans by guiding their development and by performing their usual critical review of completed plans. USAID technical assistance could help lenders understand their role in business plan development and in loan monitoring activities.

(f) Monitoring and Evaluation

The proposed use of the financial sector to appraise the financial viability of rural SMEs and to allocate loanable funds to promising SMEs implies a requisite responsibility to monitor loans. USAID could design its monitoring and evaluation methodologies to use the information that lenders will collect regularly through their loan monitoring activities.

Annex B contains a simulation model that forecasts the impact on agricultural production of increased use of fertilizer and other natural resource management proposals. This model, like all simulation models, is a tautology. It assumes productivity change through its choice of parameters and then describes the assumed change. Constraints noted in the presentation that are not taken into account within the model, but which are expected to be resolved gradually over time, include (1) land tenure, (2) access to credit, (3) physical access to chemical fertilizer (phosphates and urea) on a timely basis, (4) access to markets, and (5) access to extension services.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

Simulation models invariably arouse suspicion not only because they assume away major development issues such as credit and access to markets, but because they contain many complex algorithms that are not easily understood without significant study. As a result simulation models are viewed as suspicious "black boxes". That is, they are considered to express mathematical processing that may either (1) not model real world conditions well enough to be useful, or (2) contain invalid (logically incorrect) mathematical processes.

In addition, simulation models used for policy applications usually convey authoritative prescriptions that are to be accepted based on the "black box" rather than common understanding. Until common understanding based on something other than the black box is reached, targeted audiences are not likely to be convinced of the model's prescriptions.

The solution is to use the models as a teaching or training device. They can help monitoring and evaluation staff to understand subsystems in the real world that correspond to selected components within the models. The staff can then convert this learning experience into specification of appropriate and useful monitoring and evaluation frameworks. Once this task is completed, these staff members could effectively participate in monitoring and evaluation activity.

Logical problems that appear to exist in the NRMs model in Annex B include: (1) assumed joint rather than sequential need for various fertilizers, while the Nigerien situation calls for phosphate fertilizer application before other types of fertilizer are needed, (2) algorithms in Table 4.1 accumulate only half of the acreage assumed to be improved with water harvesting, (3) unspecified units of chemical fertilizer have six times the impact on yield as water harvesting (Table 3.6), but cost almost 102 times as much (Table 4.4, row 10, North, 24384/240), (4) no volatility in output is expressed on Table 4.5 to reflect climatic variation, (5) the sensitivity analysis in Table 4.6 considers changes only in prices of commodities produced and costs of inputs and not in changes in technical variables such as the timeliness or lack of availability of fertilizer or certain inputs, and (6) in Table 4.6, a 25 percent change in prices in the North reduces the base case of 24,142 a magnitude of 7.78 times to 3100, or raises it 1.87 times to 45,184. One would expect roughly the same price impact in both directions as it is in the same exhibit for the South.

Simulation models are very difficult to construct quickly, as this one was. Moreover, they must be fully tested, preferably by a third-party, before confidence is warranted in their estimates.

(g) Conditionalities

The discussion of mining in Section 3.a above suggests that gold mining will add perhaps \$0.5 ml to rural income in 1995, \$2.5 ml in 1996, \$5 ml in 1997 and continued growth in subsequent years to a plateau of perhaps \$16 ml per year. Moreover, the gold mining sector could add 16.6 percent to GDP in three to five years.

Planning could begin now to use some of these revenues for rural development. Consideration could be given, for example, to

- Efforts to stimulate production, distribution and use of fertilizer
- Improvement of cash crop infrastructure such as cold storage and grading rooms at the airport for green beans and other high-value exportable commodities
- Policies to stimulate transformation industries that focus on irrigated vegetables and meat products
- Analysis of infrastructure needs in the Liptako region to accommodate the increased demand for agricultural products likely to result from development of the gold mining concessions. Roads and

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

cold storage facilities similar to those needed at the airport for exports may be needed in the Liptako region to supply the growing expatriate and domestic population

The immediate or more obvious basis for all of the initiatives proposed above to improve rural incomes is technical. For example, fertilizer can increase yields where rainfall is 250 mm or more. But a successful strategy for rural development depends critically on two more subtle conditions.

First, a rural development strategy can only succeed if markets are cleared during good years at prices sufficiently high to cover input costs. Commodity markets must be strengthened to prevent sharp price declines during harvest seasons, especially during good seasons when farmers and herders have an opportunity to build cash and commodity reserves for the leaner years that will inevitably follow. Otherwise the financial sector cannot extend loans for inputs, and agricultural systems will not be sustainable.

Second, the proposed technical and financial strategies can function effectively only if the land tenure system is improved. Those that use the land must be given an "identity of interest" in the land. That is, farmers who apply phosphate fertilizer to the land, for example, must have reasonable assurance that they will have use of the land for at least a portion of the next several seasons in order to derive the continuing benefits of even a one-time investment in fertilizer.

The point of departure for a new land tenure system is the current effort to create a "Rural Code." Development of the Rural Code began with the recent creation of two land tenure commissions that operate at the district level. Each district is to have one. They are assigned to define land property rights as well as its use and management. Specification and implementation of the Rural Code could easily take a decade.¹⁵ It may, however, not work due to overlapping mandates of the land tenure commissions and the district councils. In addition, the political power structure favors decisions that tend to assist farmers at the expense of herders.¹⁶

A summary of the above discussion of constraints and proposed activities to improve rural sector performance is provided in Exhibit 1, which is contained in Annex A.

c. Niger's Bretton Woods Agreements

Niger's shortfall of total expenditure and net lending in excess of total revenue had remained at roughly ten percent of GDP from 1989 through 1993, the last year for which information is available. Its consumer price index has remained relatively stable over this time period, averaging an annual price decline of 1.36 percent. The country remains in a stand-by arrangement with the IMF. The plan is to replace the stand-by arrangement with an enhanced structural adjustment facility (ESAF) when the government meets certain preliminary conditions. Perhaps the most important conditions involve government employment and salary increases.

Even taking into account the recently introduced tax measures, the public-sector wage bill is likely to absorb 80 percent of revenue in 1995. The average real wage rate of public-sector employees has risen 60 percent from 1984 to 1993. Other fiscal indicators, by comparison, have generally declined during this period. The current account balance, for example, has declined from break-even in 1984 to minus five percent in 1993, and tax revenue as a percentage of GDP has declined from about ten percent of GDP to about seven and a half percent of GDP, and effective customs duty has remained at 15 to 17 percent during this same period. At the same time, Niger's most important export,

¹⁵/ Staff Appraisal Report, Republic of Niger, Natural Resource Management Project, World Bank, June 1994, p. 7.

¹⁶/ C. Lund, Land Use and Development of the Rural Code in Niger.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

uranium, experienced steady declines in both export price and average cost of production. Uranium costs of production have declined faster than Niger's export price, and the two are expected to be equal in 1994. During the period 1984 to 1993, the broad money supply rose slightly from 100 billion F CFA to about 120 billion F CFA.

The continued and dramatic rise in public-sector wages suggests that the public sector is becoming continually more detached from the rest of the Nigerien economy. The continued rise in public-sector wages is a principal contributor to the government's budget deficit. The pressure of the budget deficit will continue to encourage the government to press the private sector, including MSEs and SMEs, for tax revenues. Overall, the chronic government deficits suggest that the informal sector is best served by insulating itself as much as possible from formal sector regulation.

The potential impact of the 50 percent devaluation in the F CFA in late 1993 is extremely significant. This devaluation in terms of naira is roughly equivalent to the appreciation of the F CFA in terms of naira that occurred between 1985 and 1987. Hence, Niger could experience a positive impact on exports roughly equivalent to the negative impact on trade that it experienced in the earlier period. Dorosh and Nssah estimate that the 37.7 percent appreciation of the F CFA relative to the naira on the parallel market between 1985 and 1988 resulted in a direct loss of F CFA 13 billion per year in export revenues¹⁷. This equaled 3.5 percent of rural income in 1987.

d. Potential Impact of Nigerian Economic and Monetary Policies

Nigerian economic and monetary policies may have the greatest impact on Niger through currency devaluation or tariff adjustments. The last section pointed out that the devaluation of the Naira during the period 1985 to 1987 cost Niger F CFA 13 billion per year in export revenues, or roughly 3.5 percent of rural income. Niger's recent devaluation brings the real exchange rate back to a level that is only slightly higher than the Naira/CFA ratio in 1985. Niger's real exchange varied considerably in the 1980s and could do so again, depending on Nigerian policies which cannot be predicted. What is known, however, is that the loss of 3.5 percent of rural income due to the devaluation of the naira during the period 1985-1987 suggests that the recent devaluation of the F CFA gives the Nigerien rural sector at least a short-term opportunity to regain this 3.5 percent loss.

The chronic volatility of the naira and its historic decline in value in relation to the F CFA suggests that Nigerien policy makers should study ways to protect themselves from currency fluctuations. Tariff policies, as noted above, appear to be the most effective instrument to provide such protection.

B Agricultural Production Management Through Drought Cycles -

1 Overview

Niger is a country of constraints but it is also a country endowed with significant geological resources: uranium, gold, oil, ground water, and phosphate. Used wisely, these nonrenewable resources can lead to sustainable agricultural production by releasing Niger from constraints that have led to degradation of its renewable resources.

¹⁷ /Paul Dorosh p 178

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

The GON should address the constraints listed in Annex A to achieve sustainable agricultural production. This section discusses in more detail those constraints related to climate, soils, and biological production systems. We also discuss institutional, human resource, and infrastructural constraints. We build a case for our main recommendation: **support phosphate fertilization for grain crops**. We also discuss USAID strategies that can support this policy.

This general discussion cannot comprehensively cover Niger's diverse cultures, climate, soils, and vegetation. We simplify Niger to three zones: pastoral, agro-pastoral, and agricultural zones.

a Climate and Production

The word *sahel*, Arabic for shore, implies a dynamic environment. With each wave of annual rainfall, climatic data shows longer cycles of change (e.g., every 10-20 years, Todorov, 1985), much like changes of the sea level with periodic tides. There are even much more extreme cycles that are on a geologic time scale, evidence of this is old sand dunes in Nigeria and giraffe petroglyphs in the Sahara desert. This climatic variability resonates throughout the annual cycles of biological and human systems in Niger.

Rainfall gets the major blame for the variability of Niger's agricultural production. Figure 1 shows grain production since 1953. Most evident are the wide fluctuations in annual production¹⁸ and a general increase in production over time. Accommodating these wide fluctuations in production is a major management problem for producers, processors, consumers, and government agencies. Donors have provided Niger with grain to cover shortages (Table 1) but this type of aid distorts grain prices, hurts those producers with a surplus, and reduces incentive to invest in agriculture.

Temporal and spatial rainfall variability's are high in Niger and each requires different coping mechanisms. Farmers have adapted to temporal variability through storage and savings. They exploit spatial variability by planting widely spaced fields (McCorkle *et al*, 1988, pp 52), thus hedging their investment. The government of Niger must also accommodate spatial variability on a regional scale. For example, 29% of Niger receives 250-600 mm of annual rainfall while only 9% of the country receives above 600 mm (World Bank, 1994a). The 600 mm and above rainfall occurs on less productive areas of Dosso and Tillabery Departments. Table 2 shows temporal rainfall variability statistics for major towns in Niger. The minimums, maximums, and coefficients of variation¹⁹ are more important than the means for developing management strategies.

¹⁸ Production may be more dependent on early rains (more fields planted) than total amount of rain during a year. Figure 7 of Section 2 shows how millet yields do not vary with rainfall amounts unless soil fertility is high.

¹⁹ Coefficient of variation (CV) is a measure of relative variation defined as standard deviation divided by the mean. It is often presented as a percent.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

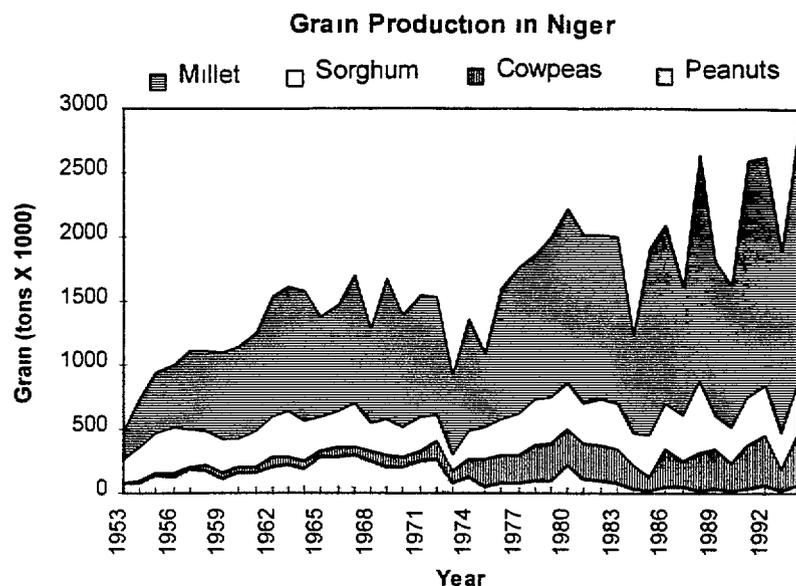


Figure 1 Aggregated grain production produced in Niger between 1953-1994 (Annex F)

Table 1 Food Aid for Niger

Year	Food (tons)
1990	30,258
1991	65,060
1992	9,678
1993	31,198

Source: Systeme d'alerte precoce et de gestion des catastrophes

Table 2 Rainfall statistics of major towns in Niger for the period 1931-1990 (Sivakumar *et al* , 1993)

Station	Maximum (mm)	Mean (mm)	Minimum (mm)	Coefficient of variation (%)
Agadez	216	115	40	35
Filingue	609	348	135	32
Tahoua	582	369	206	27
Tillabery	698	393	197	31
Zinder	659	404	220	26
Birni N'Konni	642	477	289	21
Maradi	730	491	283	29

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

Niamey	813	545	319	22
Dosso	710	549	230	24
Gaya	1041	797	476	17

b Management of the Soil Resource Base

Arable land in Niger is estimated to be 15 million hectares²⁰. Table 3 attempts to organize many of cited values of estimated land-use areas. The cited values frequently contradict each other for various reasons -- double counting is likely (e.g., pasture lands can also be arable lands). To make the numbers add-up, Desert²¹ received the remaining hectares and is likely to be underestimated. Table 4 shows the cultivated area in Niger by bio-climatic zone.

Table 3 Estimated area of land-use classes in Niger

Rainfed		Arable			Shrub lands & Forests	Pasture lands	Desert wasteland
Cultivated	Fallow/wooded	Degraded	Managed	Unexploited			
7.1 m ha ³	6.6 m ha ²	1 m ha ⁶	0.07 m ha ⁴	0.20 m ha ⁴			
	14.7 m ha			0.27 m ha ⁴	14 m ha ⁵	38 m ha ²	61 m ha [?]
		15 m ha ¹					
				127.6 m ha ¹			

¹ INRAN 1979 ² World Bank 1994a ³ MAG/EL 1995 ⁴ MH/E 1993 ⁵ UTA 1995 ⁶ Estimate based on interviews, field observations, and d Herbes & Valentin (in press)

Table 4 Cultivated area and population distribution by bio-climatic zone¹

Zone	Total area (ha)	Area (%)	Population (%)	Area cultivated (ha)	Area cultivated (%)	% cultivated (%)
Saharan	97,300,000	77	7	234,000	5	0
Sahelian	15,100,000	12	25	1,574,000	31	10
Sahelo-Sudanian	14,300,000	11	68	3,226,000	64	23
Total	126,700,000	100	100	5,033,000	100	4

²⁰ Cited but not referenced in many reports; estimate is likely to have originated from INRAN 1979 (Ouattara 1995)

²¹ Desert is not a useful term in land use inventories but it is frequently used. Three quarters of Niger is described as desert which contains pasture lands, riparian forests, shrub lands, and arable lands.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

¹ World Bank 1994a (cited from World Bank Agricultural sector strategy paper Niger 1989)

Farmers are increasing the area cultivated at an exponential rate in an attempt to supply the demand for food (Figure 2). Production is increasing primarily through reduced fallow periods and expansion of fields onto grazing land (especially in the Sahelian zone), not by increased yield per unit area (Figure 3). In some of the more productive areas, such as the southern half of the Maradi and Zinder Departments, most of the arable land is continuously cultivated and no longer given its traditional fallow periods. This reliance on extensive, low investment agriculture to support a rapidly increasing population (3.3% annually) is becoming clearly unsustainable. Evidence of this is stagnant or decreasing grain yields (Table 5) and escalation of conflict, often tragic, between farmers and pastoralists. In addition, erosion has degraded much of the arable land and it now lies abandoned.

Hard crust forms when the sandy surface of Nigerian soils are eroded. This crusting greatly reduces the amount of rainfall absorbed by the soils (Figure 4), essentially turning the area into a desert. Crusted agricultural, pasture, or shrub lands (*gangani* in Zarma) become unproductive unless someone applies labor-intensive water conservation techniques. Water harvesting is becoming popular in some areas. Farmers in Torodi, for example, joyfully describe "killing the *gangani* with *demi-lunes*" (water harvesting structures).

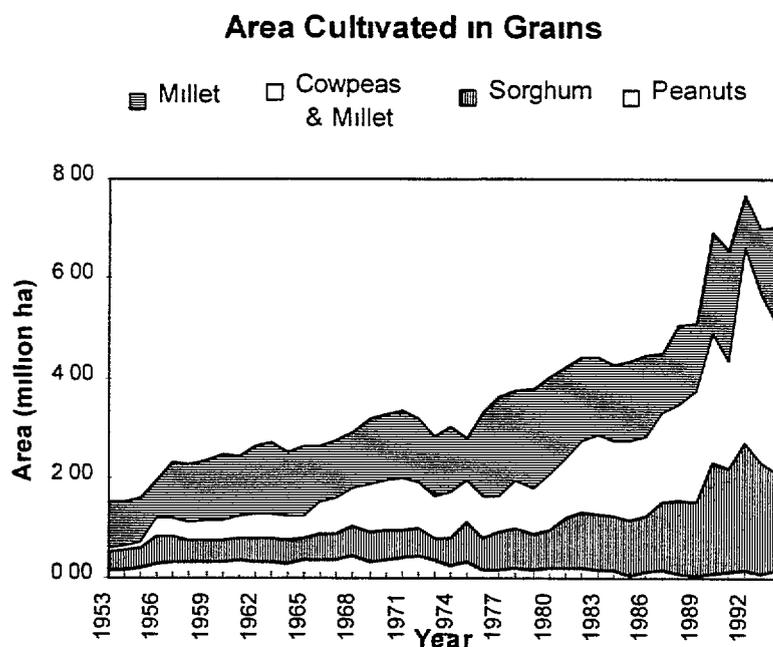


Figure 2 Aggregated area cultivated for grain in Niger, 1953-1994 (Annex F)

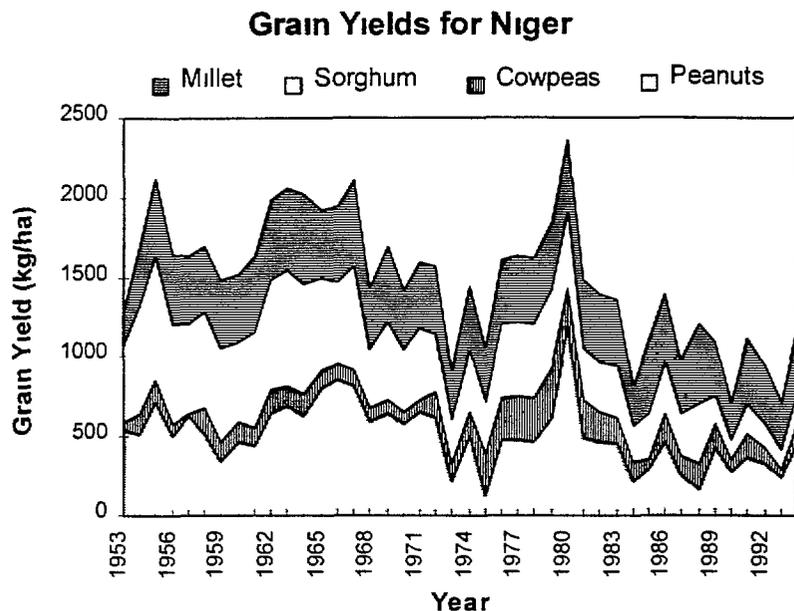


Figure 3 Aggregated grain yields in Niger, 1953-1994 (Annex F)

Table 5 Crop yields in Niger between 1980 and 1994 ¹

Crop	Average Yield (kg/ha)	Compound Growth (%)	Coefficient of Variation (%)
Millet ²	387	0.00	16
Sorghum ²	246	-0.04	32
Maize ³	584	0.02	42
Rice ⁴	2097	0.00	44
Cowpeas ²	127	-0.03	32
Peanuts ²	344	0.00	31

¹ Data source MAG/EL 1993, 1994 & 1995 ² 1982-1994 ³ 1982-1992 missing 1981 data ⁴ 1980-1991 1992 data was discarded

Effect of Soil Erosion on Water Infiltration

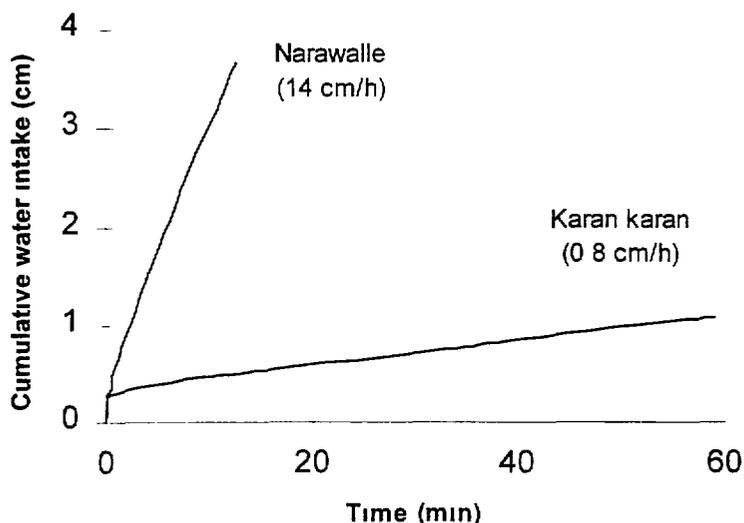


Figure 4 Cumulative infiltration of water into an eroded, crusty soil (*karan karan*) and a neighboring non-eroded soil (*narawalle*) The final infiltration rates (slope of the curves) are presented in parentheses Rainfall rates of intense, short duration Sahelian storms greatly exceed the absorptive capacity of crusty soils Most of the water that falls on crusted soil is lost to runoff (Tabor, 1995)

Land-use studies and inventories have not estimated the area of these crusty soils comprehensively Several professionals have estimated the extent of crusted land at between 10 to 30% of arable land

D'Herbes and Valentin (in press) measured the amount of crusty soils in a very large area near Niamey as part of the HAPLEX-Sahel study Some of their findings are listed in Table 6 They show that 34.2% of the study area is severely degraded Water harvesting for agricultural production can be applied to nearly 15.9% of the total area Water harvesting techniques for range and shrub-land improvement can be applied to 18.3% of the total area This study also shows that all arable land in the study area is being managed for agriculture with 32% of it cultivated, 57% in fallow, and 11% abandoned

Table 6 Land-use Classes and Percent Composition from the 10,000 km² HAPLEX-Sahel Site near Niamey Niger (d'Herbes and Valentin, in press)

Land use	Class	Rainfall Runoff Ratios %	Area %	Water Harvesting Potential
Shrub land & Pasture	Plateau dense vegetation	6	5.2	
	Plateau bare soil	82	15.1	Range & forestry
	Plateau sparse vegetation	27	7.9	
	Hill slope ironpan	81	3.2	Range & forestry
Agriculture & Pasture	Degraded hill slope	87	7.7	Agriculture range & forestry
	Old dense shrub fallow	35	1.3	
	Old mid dense shrub fallow	29	15.9	
	Old sparse shrub fallow	23	2.8	
	Mid old high grass fallow	27	12.4	

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

	Mid old low grass fallow	55	52	Agriculture
	Recent fallow	33	11	
	Hill slope high density field	32	89	
	Hill slope low density field	39	39	
	Valley bottom high density field	27	60	
	Valley bottom low density field	60	30	Agriculture
Wetlands	Superficial waters		05	

c Institutional and Infrastructural Constraints

Many agricultural practices have been developed to improve Nigerien food production and conserve the resource base. However, most of these practices have singularly failed to override social, institutional, market, and labor constraints -- many of them related to risk. The high level of risk requires a high return on investment. Risk haunts nearly every management decision of a Nigerien. highly variable rainfall, one of the highest infant mortality rates in the world, insecure land tenure and usufruct for many, use livestock as one of the more secure instruments of savings, poorly developed markets, and high unemployment. Left unsupported, improvements in one constraint will be dragged back down by the others.

Agricultural research and extension have concentrated on agricultural production technologies that require greater level of inputs than those currently used. However, most farmers have made the decision to maintain low investment agriculture and expand onto pasture lands or decrease their fallow periods. If good rains continue farmers will be enticed to expand further into the agro-pastoral zones as they did north of Zinder during the first half of this century when rainfall was good (Delehanty, 1985).

In areas of high population density, however, such as the Mossi Plateau of Burkina Faso where agricultural land is severely limited, farmers invest to improve their land for agricultural production (*i.e.*, "necessity" may also be "the mother of adoption"). Such investment is also occurring in selected Nigerien areas. In Maradi, for example, virtually all arable land is under cultivation and farmers are adding chemical fertilizer to rainfed crops.

Increased competition for resources and resulting conflicts are increasing along with the population. When higher authorities resolve conflicts between farmers and pastoralists, the decisions usually favor the farmer (Lund, 1993). Development project staff working with Rural Code issues notice that farmers have the political will to resolve resource tenure conflicts with other farmers (*i.e.*, in regions composed of just farmers). However, they also notice that farmers lack political will to resolve similar conflicts in agro-pastoral regions where agricultural expansion is a coping strategy (Moestrup, 1995, Wild, 1995).

Only recently has the government of Niger allowed the development of non-governmental organizations (NGOs). Now the political environment exists so that free-market, production-based cooperatives and enterprises can evolve. The lack of organization and pooled resources of producers limits their entry into markets (*e.g.*, importing green beans to Europe during the winter).

Niger has one of the best primary network of paved roads in West Africa. However, most farmers (and markets) will experience a growing need for secondary and feeder roads as input use and cash

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

sales increase. Transportation may soon become a critical constraint to sustainable economic growth. The government is attempting to curb bribes garnered from truck drivers by police, gendarmes, and custom agents. However, these abuses are still significant costs of production which decrease returns on investment (see Annex I, and GEMNI, 1997).

d Activities that Improve Use and Conservation of Agricultural Resources

Increasing agricultural productivity is imperative. Higher yields per hectare can reduce labor constraints and the environmental degradation caused by extensive agriculture. Soil fertility, particularly the low levels of phosphate, is a bigger constraint than rainfall. Improving soil fertility can also reduce the risk of crop failure from drought.

If farmers invest in fertilizer, they need to protect the soil from erosion and the loss of applied fertilizer. By conserving the soil they will also conserve water, further reducing risk of drought, and allow even higher yield increases.

Once farmers increase soil fertility and production levels, improved natural resource management techniques (e.g. field trees, organic fertilizers) will have significantly more benefit and may become more attractive.

If productivity and production increase, then storage and processing of produce become more important as does marketing and instruments of savings.

Irrigation is also an important factor for increasing economic growth which Niger has significant potential for developing. The dry season is a period of unnecessarily low agricultural production when unemployment is at its highest but this is beginning to change through increased use of dry season irrigation. Approximately 270,000 ha of irrigable land occurs in Niger, 140,000 of it along the Niger River and 60,000 in the Maradi and Zinder agricultural zones. Farmers irrigate only 70,000 ha (22%) (World Bank, 1994c). The rapid growth of dry season gardening is a direct result of the 1984 drought. Farmers now irrigate approximately 60,000 ha of dry season gardens. Irrigated perimeter development has also increased through government and donor support, from 2,000 ha in 1983, to 10,000 ha in 1993 (MH/E, 1993). Rainy season irrigation will be slow to develop until markets for high value crops develop and competition for arable land increases.

(1) USAID

The US is supporting economic growth in Niger through USAID's Agriculture Sector Development Grant II Project (ASDG II), the Disaster Preparedness and Mitigation Program (DPM), the Africa wide, Washington funded Famine Early Warning Systems Project (FEWS), funding of AGRHYMET (regional data collection and research center for agricultural hydrology and meteorology) and support of US and Niger based non-governmental organizations (NGO).

ASDG II has focused on policy reforms that affect natural resource management. Initially forestry issues received most of the project's resources but a greater emphasis is now being placed on

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

agriculture and range management (Winterbottom, 1995), including the Rural Code through activities of the Land Tenure Center

DPM is providing support to the GON's *Systeme d'Alerte Precoce* who is developing its relationship with the numerous ministries and agencies. Since DPM initiation, Niger has received generally good rainfall so the project has not had a chance to test its systems.

FEWS, a USAID/Washington based project, provides useful information to the mission and the GON. Its objectives and timely reporting schedules follow the needs of this Africa wide project. Complete integration with other projects in Niger may not be possible.

USAID's support of AGRHYMET helps provide valuable information for researchers (for example, data upon which to develop climate prediction models, and GIS based information upon which to design sociological and natural resource management surveys).

USAID's support of NGOs (e.g., Care, CLUSA, Africare, ASDG II's and DPM's grants program) directly improves the lives of Nigeriens. It also provides field level monitoring of economic growth, natural resource management, and changes that are affected by national policy.

(2) Other donor activities

USAID is not alone in its efforts to improve the livelihood of Nigeriens. Table 7 lists donor activities related to natural resource management. The World Bank's proposed Natural Resources Management Project (PNGRN) will certainly affect agricultural policy and economic growth in Niger. During the first phase (5 years) it will work in 380 communities in five districts and affect about 270,000 people. It will address many of the constraints on agricultural production and economic growth. DANIDA's support of the first two test Tenure Commissions (*Commission Fonciers*) has raised important issues. USAID support for additional test commissions will need to be long term, over tens of years. The election of Commission representatives and development of *texts d'application* will be a long complicated process, especially if the elected representatives are not dynamic. Establishment of pastoralist territories (*terroir d'attaches*) through relatively inexpensive and simple through GPS and GIS technologies will help conserve pasture lands. However, farmer participation may be difficult to achieve.

e Approach

The objective of the policies and interventions described in this section are intended to reduce risk and conserve physical, livestock, capital resources through climatic cycles, especially during drought years. These policies and interventions make the best impression when introduced during the appropriate extremes of production or climate (timing is very important). These extremes can be very disruptive but they can provide a catalyst for change such as the introduction of foods, market creation, change in behavior. Dry season irrigated vegetable gardening is the clearest example of this. Before the 1984 drought consumption of vegetables and dry season gardening was very limited. Only during the drought could the government of Niger, donors, NGO, and the population focus on developing dry season gardening even though gardening is beneficial during other years as

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

well It is more important to focus on activities that improve incomes during low production years although high production years can be very disruptive to markets and also decrease farmer incomes The government of Niger's vision of development should balance these proposed reforms to match the long term production capability of Niger's biophysical resources, livestock, crops and labor

2 Management to Increase Production and Reduce Variability

The major goal of farmers and pastoralists is to cope with variability and the associated risks of producing crops and livestock, especially during the low production extremes (Watts, 1988) The goal of early warning and famine mitigation is to know when and how to intervene before producers are forced to sell off their productive assets and certainly before they are forced to migrate to urban centers This strategy of early warning and mitigation is also valid for maintaining economic growth during less extreme disruptions, although through less invasive methods

As described in other sections, more investment options (e g , fertilizers, pesticides, hired labor) will be available to farmers if they have access to timely credit and secure savings Availability of credit and savings will help reduce the risk of crop losses from climatic stress Reducing transportation and communication costs develops markets and reduces price fluctuations caused by localized surpluses or deficits Timeliness is crucial for access to credit and inputs Reddy *et al* (1990) developed production strategies for the crucial planting period between the end of May and end of July, but they are useless if farmers do not have the timely means to follow them (e g , credit, access to fertilizers and seeds)

Table 7 Natural resource management related activities and donor involvement (SDSA II, 1995)

Activity	Direct Donor Involvement
Agricultural extension	World Bank, IFAD(FIDA), Netherlands
Agriculture	FED
Agriculture markets	Canada, Norway, Netherlands
Animal husbandry	FAC, FED
Apiculture	France (AFVP)
Cereal banks	Norway, PAM
Cotton	Norway
Decentralization	FED
Environmental education	Netherlands
Fisheries	FED, GTZ
Forest management	FAO, GTZ, UNDP (PNUD)
Forestry	SOS Sahel, Norway
Fuel-wood conservation	World Bank, DANIDA
Integrated pest management	GTZ
Irrigation management	World Bank (in preparation), FAC, FED, BAD
Natural resource management	World Bank (in preparation), Switzerland
Peppers	Canada
Rural Code	DANIDA
Rural development	Italy
Rural infrastructure	PAM

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

Soil and water conservation	IFAD(FIDA), FED, GTZ
Village territory management	FAC, SNV
Water management	SNV, UNDP (PNUD), Switzerland
Well management	France (AFVP), DANIDA, FED, GTZ, Japan
Wildlife management	FED
Women in development	Norway

a Agriculture

Nigerien farmers, in the country as a whole, use very little fertilizer. They use an average of 23,000 tons of fertilizer annually (van der Linde et al., 1994) or only 3.2 kg/ha on cultivated land. Western European farmers use around 300 kg/ha on crops and pastures, and American farmers use around 95 kg/ha on crops. Fertilizer use is not evenly distributed throughout the country. The big consumption areas for fertilizer are in the higher rainfall areas of southern Maradi and Zinder Departments that are close to Nigeria, irrigated perimeters, and dry season, irrigated gardens in Diffa, Dosso and Tahoua Departments (van der Linde, et al., 1994). Fertilizer is preferentially applied to high value crops with low risk of drought such as irrigated crops. It is also more likely to be applied where costs are lowest such as near the Nigerian border where informal trade across the border avoids governmental tariffs and transportation costs are low.

Several studies evaluated the profitability of applying chemical fertilizers but they were conducted before the 1994 devaluation of the CFA franc (Eid, 1989, SOMEA, 1992). They are generally discouraging and may not be relevant now. Thanks to devaluation, the value of additional grain produced from fertilization and the cost of Tahoua rock phosphate compared to imported fertilizer have shifted in favor of Nigerien farmers. FAO determined a value cost ratio of 2.0²² is the economic limit above which farmers will likely adopt a crop management practice and upon which the conclusions of these fertilizer studies were based.

The FAO fertilizer trial data (Eid, 1989) show that Niger should expect a 30% increase in millet yields (Figure 5) by applying 100 kg of triple super phosphate per hectare (20 kg of phosphorus/ha or 241 kg of simple superphosphate/ha²³) if annual rainfall²⁴ is greater than 250 mm (Figure 6). The high variability of the data (19-152% yield increase) shows that there are significant factors other than phosphate fertility levels that also impact yield. ICRISAT data (Figure 7) also confirms these results. Phosphate fertilizer has a long residual effect, up to 5 years, in Nigerien soils (Bationo et al., 1990). Because of this long

²² Profit realized by the farmer depends on two ratios: the ratio of the value of the additional grain produced to the cost of the fertilizer inputs necessary to achieve this yield (value cost ratio) and the ratio of the costs of a kilogram of fertilizer to the value of a kilogram of millet (price ratio) (Bationo et al., 1992).

²³ Conversions based on Bationo et al. (1990) and are presented to give a general idea of amounts needed. Phosphate equivalency between materials and yield responsiveness are much more complicated than presented in this report.

²⁴ Annual rainfall is a crude but convenient method to represent water stress on crops.

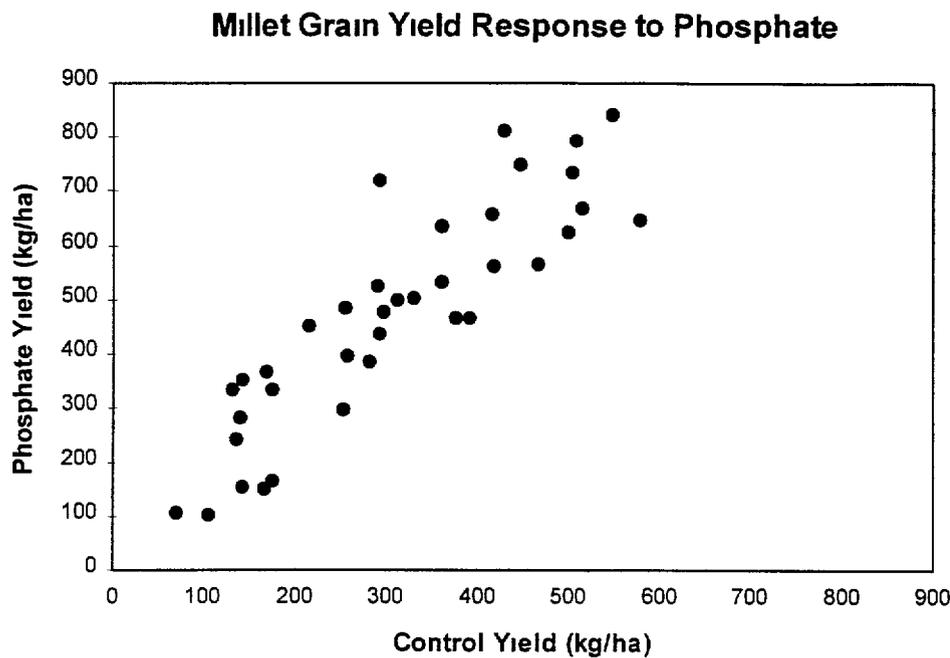


Figure 5 Millet grain yields with phosphate fertilizer compared to the controls from 12 sites over 5 years in the Maradi and Zinder Departments (data from Eid, 1989 in Annex F) residual effect, subsequent maintenance fertilization will require smaller amounts to achieve similar yields Also phosphate fertilizer is safe to apply and there is no risk of 'burning' the crop

Rainfall had a slightly negative impact on yields of the control in Figure 7 This demonstrates that fertility, not rainfall, is the major constraint on Nigerien agriculture Low soil fertility causes a plant (crop, forage plant, or tree) to use water inefficiently Fertilizer significantly increases yields without increasing the plant risk to drought if the proper amounts of nutrients (primarily nitrogen, phosphorus, and potassium) are applied (Payne, 1995) Increased disease and insect damage probably cause the insignificant yield decrease of the control as rainfall increased Other research shows that low phosphate levels are the major fertility constraint to Nigerien agriculture

Bationo *et al* (1990) discovered that finely ground rock phosphate from Tahoua gives the same yield response as Nigerian single superphosphate (comparison by unit weight of material) when they were applied to an acid soil (Chien, 1995) In Niger, most soils that are used for millet cultivation are acidic In spite of good yield response to Tahoua phosphate (Figure 8 and Table 8), its use is insignificant as compared to other phosphate fertilizers (Annex F) Farmers complain that the powdered rock is more difficult to apply than imported granulated forms of fertilizer and that it is not readily available in their markets The extent of Tahoua rock phosphate reserves has not been studied nor has the range in quality of harvested phosphate nodules The Tahoua samples that were studied have high content of iron and aluminum oxides that prevents the usual increase in availability that acidulation²⁵ offers Soil surveys by Gavaud, 1965 through 1975, and other scientists at ORSTOM show that in the Tahoua region

²⁵ Phosphate rock is treated with acid usually sulfuric acid which usually make the phosphorus more available to the plant This simple process is a potential Nigerien industry

Millet Grain Yield Response from Phosphate Relative to Rainfall

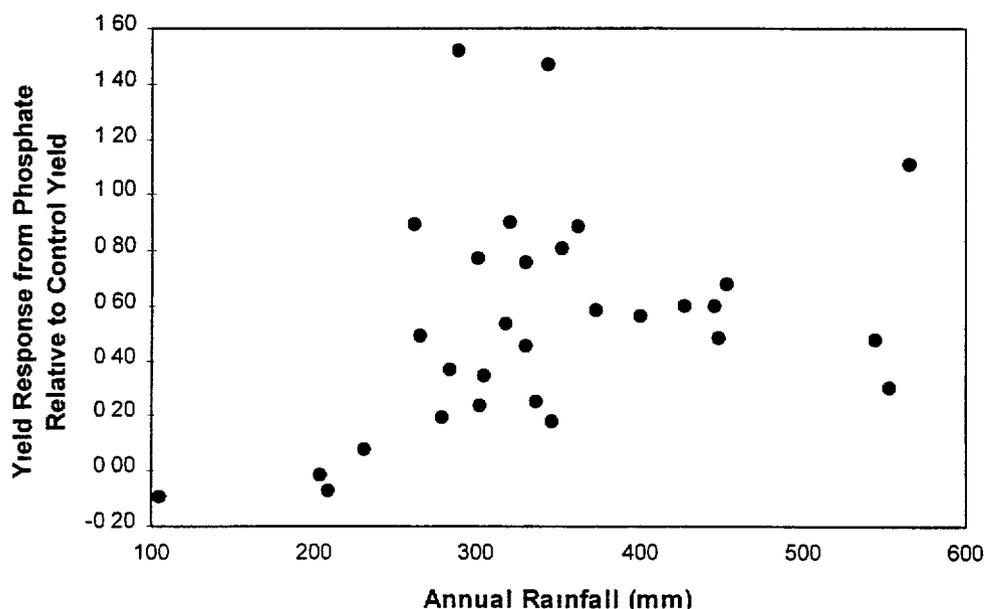


Figure 6 Grain yield response of millet from phosphate fertilizer relative to rainfall. Data was collected from 12 sites over 5 years in the Maradi and Zinder Departments (data from Eid, 1989 in Annex F)

there is a wide distribution of soils that are high in phosphate. This suggests that further prospecting in the area is needed. Also the present price of Tahoua phosphate (25 FCFA/kg) is set by *Centrale d'Approvisionnement* and may not reflect what the price would be from a functioning mine. The phosphate reserves in Park W near Tapoa do not provide as large of a crop response as the Tahoua rock unless acidulated (Bationo *et al*, 1990). In addition, a soon to be signed international program for wildlife habitat conservation will discourage exploitation of the Park W phosphate reserves (Price, 1995).

Research shows that sustained millet grain yields of 2-3 tons per hectare are possible through improved management practices. More important practices include crop rotations and additions of inputs such as animal manure, urea (nitrogen fertilizer) and potassium (Payne, 1995). However, much improvement will be needed in infrastructure and institutions before rates of return make such investments profitable²⁶

As productivity and profitability increase, the benefits of improved natural resource management techniques are likely to become apparent and more economical. However, many of the improved techniques can inflame resource tenure and usufruct insecurity. Layers of conflicting traditional,

²⁶ These yields will never be achieved nationally. Rate of return on investments is likely to be better for cash crops which would receive the majority of inputs. Nigerien farmers are trapped into investing most of their labor into sub-subsistence production of grain which limits opportunities for cash crop production. This in turn inhibits development of fertilizer and pesticide markets which prevents farmers from increasing grain yields. Once this constraint is broken then infrastructure, markets, population increase, cost of labor and land will determine the investments required to achieve subsistence grain yields.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

Islamic, colonial, and post-colonial laws complicate a technically straight forward solution. Adoption of many of these techniques will be constrained by progress in developing the Rural Code

Response of Millet Yields to Phosphate and Nitrogen Fertilizer Under a Range of Rainfall Years

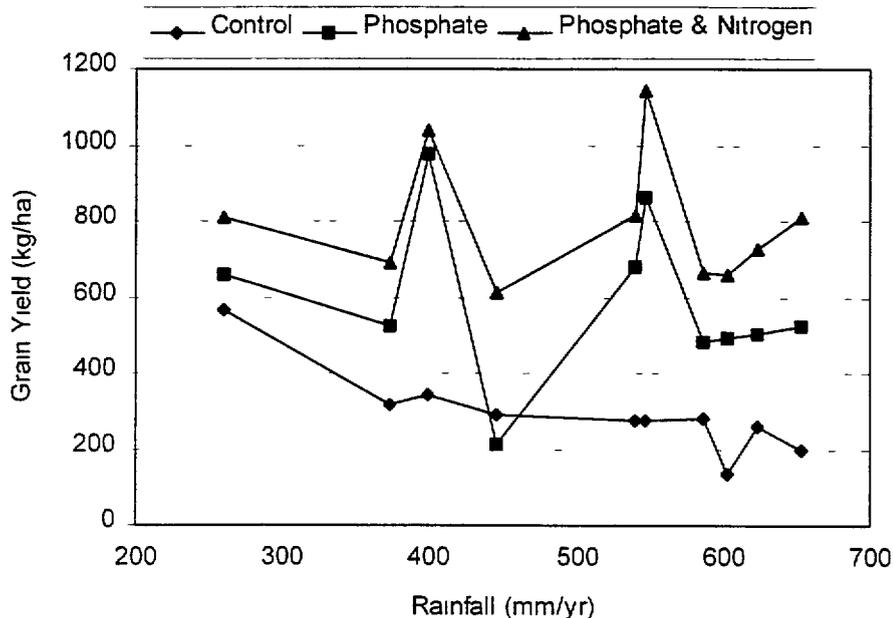
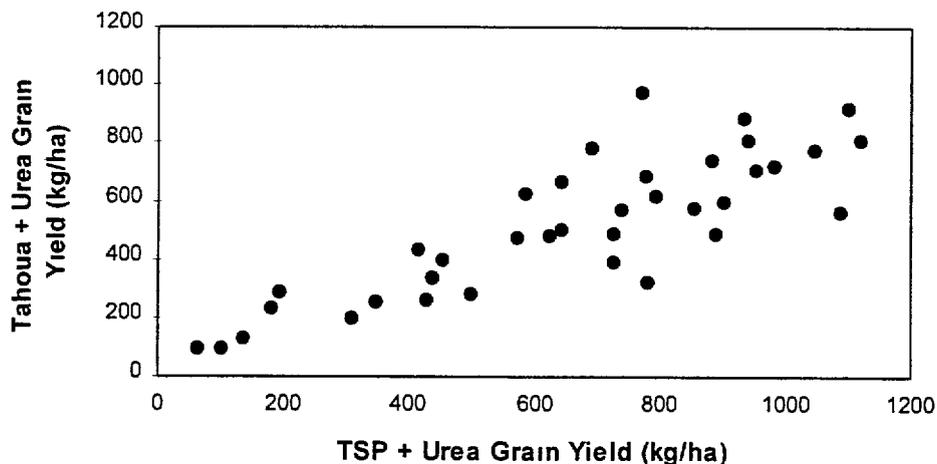


Figure 7 Grain yields of millet relative to rainfall with the addition of phosphate, phosphate + nitrogen, and no fertilizer treatment over the past 10 years at the ICRISAT Center in Sadore Niger (Bationo, 1995)

Millet Yield Response to Tahoua Rock Phosphate Compared to Triple Superphosphate (urea was applied to both)



DRAFT USAID/NIGER Economic Reform and Microenterprise Program

Figure 8 Millet yields from Tahoua rock phosphate + urea compared to triple superphosphate + urea Tahoua phosphate was applied at a rate of 19 kg of P/ha, triple superphosphate at a rate of 20 kg of P/ha, and urea at a rate of 46 kg of nitrogen/ha, (data from Eid, 1989, Annex F)

Table 8 Comparisons of phosphate fertilizers based on the weight of material

Fertilizer	% P ¹	Relative Yield Response fertilizer/TRP ¹	Relative 1995 Prices fertilizer/TRP ²
Tahoua rock phosphate (TRP)	12.1	1	1
Single superphosphate	8.3	1.02	2.2
Triple superphosphate	21.1	1.84	3

¹ Batono *et al.* 1990 Chien 1995 ² Centrale d'Approvisionnement

Increasing yields per hectare can increase labor use efficiency and potentially will release time and land for cash crop cultivation. An increase in cash crop production would in-turn increase both transactions in commodity markets and demand for crop production credit and savings.

Soil and water conservation are a prerequisite to increasing soil fertility. Most nutrients, especially phosphate, are concentrated near the soil surface, the soil strata that is most vulnerable to erosion. Numerous types of conservation techniques have been proven effective in Niger -- however many technicians have designed various structures such as earthen works that do more harm than good. Training or retraining of technicians and engineers is needed before any large scale extension program is started. As mentioned above, adoption of these techniques may be limited by progress in developing the Rural Code.

The system of seed production set up by the GON is expensive and not very effective (van der Linde *et al.*, 1994). Improvements in hybrid sorghum have created an opportunity for privatizing seed multiplication and distribution. There is also progress in developing a high yielding hybrid millet which may be ready for marketing by the year 2000 (Sivakumar, 1995). Privatization will need support of the government, especially in creating and enforcing laws that assure the quality of seed.

Storage losses of grain by insects can be substantial and increase risk of inadequate supplies for which farmers compensate by sowing more fields. Community cereal banks do not have a history of success in Niger (Rietsch, 1993). Integrated pest management, improved markets, and secondary road networks will help farmers increase food security more than cereal banks.

(1) Rainfed

Rainfed agriculture production in Niger is rather diverse as would be expected of a subsistence based system. For example, some of the plants and uses include

- Subsistence/cash crops such as millet, sorghum, cowpeas, peanuts, bambara groundnut (*souchet*), manioc, maize, okra, sesame, hay from cowpeas, peanuts, millet stalks, and construction material from millet stalks,

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

- Cash crops such as pole wood, fruit trees, and henna, and
- Natural vegetation and agroforestry plants for medicines, gum arabic, construction material, dyes, honey, firewood, forage and fodder

Of Niger's two traditional cash crops, cowpeas and groundnuts, cowpeas appears to be the more immediately profitable alternative. Cowpeas markets have developed and Nigerien farmers are exporting them. Van der Linde, *et al* (1994) reported that, of the 400,000 tons of cowpeas produced, 34,000 tons were exported. Once subsistence levels of cereal production are assured, through phosphate fertilization, farmers can allocate more resources to cash crops. If the market can absorb a significant increase in cowpea production, then it will likely be the favorite cash crop. Groundnuts have more constraints on their production and marketing than cowpeas. They require very sandy soils for grain development and harvesting. They are also considered a woman's crop unless profits are high enough to encourage male participation. Niger groundnut have high level of fungal aflatoxins from poor storage which limits their marketability internationally. Low income levels of the population encourage cheaper palm oil substitution for peanut oil.

Figure 2 shows the highly variable production of cowpeas since 1953. Insects damage, especially by thrips, is the primary cause. Table 9 shows that through inputs of phosphate, pesticides and improved seed with crop rotation and animal traction cultivation increased cowpea grain yields 27 times²⁷ that of conventional cultivation! Millet yield increases were more modest -- only 13% increase which supports the fertilization results described above.

Table 9 Traditional and improved management yields of millet and cowpea with an average annual rainfall of 412 mm^a (Klajj et al , 1994)

Crop	Continuous intercropping		Improved management (sole crops) ^b	
	Grain	Fodder	Grain	Fodder
Millet	0.67 t/ha	1.52 t/ha	1.51 t/ha	2.70 t/ha
Cowpeas	0.02 t/ha	1.44 t/ha	1.08 t/ha	2.37 t/ha

^a Experiment was conducted over a 3 year period in Birni N Konni, Niger.

^b Crop rotation using sole crops with improved varieties, animal traction and inputs of phosphate fertilizer (13 kg P/ha) and a pesticide for cowpeas. The per hectare yields of sole crops must be halved to make an annualized per hectare comparison with continuous intercropping.

While phosphate fertilizer by itself will increase cereal production, a significant increase in cowpea production will depend on expansion of integrated pest management supplies and management techniques. Greater production of cowpea fodder will provide an incentive to further integrate livestock production with crop production as well as associated natural resource management practices (e.g., improved fallow hay to supplement the high protein cowpea hay).

Labor saving techniques for subsistence crops can increase resource availability for production of cash crops. The peak demands for labor are (1) periods of two days after rainfall events during planting season for millet and (2) in August and September during weeding. It will be difficult to improve upon the "divot every two steps" method of sowing millet that these sandy soils allow. Reducing the area needed for planting through fertilization and improved varieties are the most likely labor saving interventions for sowing. If time permits, a field receives two weedings using conventional methods. Additional weeding may be needed if fertilizers are applied. The additional

²⁷ This study's average yield is 4 times greater than the average national yield of cowpeas.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

weeding is likely to be justified by higher yields. Greater use of companion techniques such as denser plant spacing, animal traction are needed to help farmers reduce labor demands when using fertilizers.

The low demand for labor during the dry season offers the opportunity to invest in soil and water conservation structures and irrigation.

(2) Irrigated

The major irrigated crops are cereals (rice, wheat), vegetables (onions, green beans, peppers, tomatoes, garlic), fiber (cotton), fruit trees (dates, guava, papaya, citrus) and sugarcane. Irrigation's main advantages are that it provides employment during the dry season when unemployment is high, allows agricultural production throughout the year and has less production variability than rainfed systems in Niger. As is well known, it requires a large investment in equipment, materials, labor, and training when compared to rainfed and recessional agriculture systems. It is part of Niger's long term growth strategy which the World Bank is investing (World Bank, 1994c) but it is unlikely to add significantly to Niger's GDP in the near term.

Onion production is well-established. In 1992, 170,000 tons of onions were produced and 23,000 tons exported (van der Linde *et al*, 1994). Current success with onions is encouraging development of other crops and markets such as garlic, potatoes. Green bean production has potential of developing in the Niamey area because of timely access to the international airport (see Annex H). *Projet CAT* in Tillabery attempted to develop a green bean market but had problems of quality control and price disputes with buyer in Paris. They often sold green beans at a loss (van der Linde, *et al*, 1994).

Cotton has potential and is likely to start making a much larger contribution to the Nigerien economy as a result of the devaluation of the CFA franc and new contracting methods with farmers (CADEG 1995). Niger has the climate, soil, water, and irrigated perimeters to produce high value irrigated long staple cotton.

b Livestock

Livestock²⁸ is a commodity that provides Niger with significant economic benefit²⁹ that exceeds its calculated proportion of GDP. As a result agriculture's relative importance in Niger's economy may be overestimated. The livestock population estimate for 1994 was 3.1 million Tropical Livestock Units with a 10% margin of error. This estimate assumes 2 million heads of cattle, 3.75 million sheep, 6 million goats, 375,000 camels, 500,000 horses and donkeys. World Bank (1994) suggests that exploitation of the rangelands in the northern pastoral zone is suboptimal due to insufficient herd mobility, which is caused by a gradual change of ownership of the herds (from pastoralists to investors or traders) and due to security problems in the north. However, studies of plant populations in the pastoral zone over the past 10 years show the disappearance of valuable forage species (*e.g.*, *Cenchrus biflorus*) (Maidaji, 1995). This indicates overstocking. Rangelands may have

²⁸ Cattle, sheep, goats, donkeys, horses, camels, chickens, guinea fowl, ducks, rabbits, and swine.

²⁹ Food, skins & hides, savings, instrument traction, and social status.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

the potential to sustain much higher livestock population if the composition of plant species is improved. In the agricultural zone the grazing lands are over stocked (World Bank, 1994a)

Pastoralists have an important role in Niger's economy. Approximately 10 to 20% of the Nigerien cattle³⁰ is still owned by nomadic pastoral communities of the Fulani and Tuareg ethnic groups who spend the entire year in the pastoral and agro-pastoral zones. Forage quality is low from March to July but its limited availability becomes a major problem after February. Water is also a problem. In a dry year, total biomass production is only 60% of that of a normal year. In 1984 when half the cattle died, biomass production was not more than 30% of normal (World Bank, 1994a). The government of Niger needs to assure that loss of pasture lands in the agricultural and agro-pastoral zones do not compromise production systems of pastoralists. Otherwise, Niger risks losing much of the value of the pastoral zone by discouraging this lifestyle. Livestock production could be improved by interventions that reduce risks and constraints of production described above.

For example, extension of technologies to encourage destocking (e.g., meat drying and salt curing) especially after poor rainfall years will encourage better market development. Pastoralists and farmers also need alternatives to livestock as instruments of savings to encourage them to destock, especially after poor rainfall years.

Pastoralists need access to Nigeria and southern pastures during the cropping season. Agricultural expansion is cutting off passageways to southern rangelands. Farmers receive little discouragement from expanding onto traditional range lands. In some areas farmers cultivate "trap fields"³¹ to reap a portion of heavy fines levied against pastoralists by local authorities (Maidaji, 1995).

3 Evaluation of Selected Management Practices

3.1.1 North (p. 11 Kjell)

The "north" zone of this analysis is the agro-pastoral zone that occurs in the Sahelian bio-climatic zone. Annual rainfall ranges between 250 and 400 mm on average and is highly variable (coefficients of variations around 30%). Agricultural expansion is the most rapid in this zone and it is cutting off pastoralists from traditional grazing lands. This is the zone with high potential of integrating agriculture and livestock but is also a zone with the greatest conflict between farmers and pastoralists. It is bordered by the pastoral zone to the north and agricultural zone to the south.

3.1.2 South (p. 11 Kjell)

The "south" zone of this analysis is an agricultural zone that occurs in the Sahelo-Sudanian bio-climatic zone. Annual rainfall ranges between 400 and 900 mm on average and is moderately variable (coefficients of variation around 20%). Agricultural expansion is nearly impossible because most of the arable land is already cultivated and little of it is in fallow. This is the zone where intensification is occurring. Farmers are applying chemical fertilizers and pesticides but not yet in significant amount to affect Arrondissement level production statistics (e.g., farmers applying fertilizer

³⁰ No reliable data exists (World Bank, 1994a)

³¹ A farmer cultivates a small, isolated field in traditional rangelands in the hope he can catch a pastoralist's livestock damaging the crop. Fines imposed by authorities on the pastoralist can be costly.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

may compensate for the yield decrease from reduced fallow periods) "Cut and carry" (hay and fodder) type of livestock production has potential in this zone if land is released for managed fallows

3 3 1 Water Harvesting (p 17 Kjell)

Water harvesting structures are labor intensive intervention that requires some supervision by extension agents. Animal manure or chemical fertilizer is required for crop production. Although yields in the cultivated area are very high (3 tons/ha) the actual per hectare yields are around 500 kg/ha (included both cultivated area and rainfall runoff area) (Tabor, 1995). It is unlikely that farmers with access to sufficient land will reallocate labor and capital from traditional agriculture to more intensive water harvesting unless the reduced risk or increased profits from alternative crops are significant. Water harvesting is being adopted by land poor farmers and in areas where there is high competition for agriculture land. However in many areas, farmers have limited access to land with a potential for water harvesting because of insecurity of tenure by the owner.

3 3 2 Organic and Chemical Fertilizer (p 17 Kjell)

Phosphate is the most limiting nutrient for Nigerian agriculture. Research results, described above, show that on average a 6500 f CFA/ha investment of phosphate fertilizer³² will increase millet yields 30%. Once this occurs then additional investments in animal manure and urea will have larger returns (around 40% additional increase in yields with 7000 f CFA/ha of urea, 1.2 times the yields without fertilizer inputs).

3 3 3 Animal Traction (p 17 Kjell)

Animal traction will become more attractive as fertilizer inputs are increased and weeding becomes more important. Also with increased soil fertility and production, more peanut and cowpea hay will be available that reduces the cost of maintaining an animal.

3 3 4 Managed Fallow (p 17 Kjell)

Managed fallow for grass and legume hay production will be possible if labor and land are made available through improved crop management and purchases of fertilizers and pesticides. This will support an increased integration of agriculture with livestock and possibly pastoralists. Seeds for growing high forage value grass and legumes will need to be made available if local collection is not economical.

3 3 5 Field Trees (p 17 Kjell)

Natural regeneration and planting of trees in fields (approximately 50 trees per hectare) will help protect the soil from erosive winds and reduce time spent by women collecting firewood. Although this practice protects the land from degradation, results from studies on the Maggia Valley (Niger) windbreaks suggest that it may cause a slight yield increase. This might occur because of the improved micro-environment and the additional accumulation of livestock manure encouraged by

³² Calculated from 1995 fertilizer prices quoted by the *Centrale d'Approvisionnement* in Niamey. Transportation and handling costs will increase the price farmers must pay.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

shade during the hot season For this analysis, field trees are a soil conservation measure that does not affect crop yields but provides wood and fodder

3 3 6 Crop Yield Responses (p 18 Kjell)

Kjell, crop yields show 0% compound growth since 1980 (except for sorghum that decrease 3%), not a 2 66% decline See agricultural data in our Annex F

Your Table 3 5 has different yields than in our Annex F 292 kg/ha millet, 94 cowpeas, and 74 peanuts for the northern zone (average of 12 years in Tanout and Dakoro) and 428 millet, 170 cowpeas, 322 peanuts These are averages that distort the peanut yields (e g , 500 kg/ha one year zero the next 10 years)

***Water harvesting* (p 20 Kjell)**

As mention above, water harvesting will provide 500 kg millet grain/ha from previously unproductive land As this technology evolves in Niger, cash crops will likely displace cereal production in these catchments

***Chemical fertilizer* (p 20 Kjell)**

Yields are described above

***Managed fallow* (p 20 Kjell)**

There is not any information available on this

***Animal traction* (p 21 Kjell)**

This is a labor saving intervention that allows more timely weeding and resulting (unknown) higher yields

***Field trees* (p 21 Kjell)**

As mention above, we will assume no effect on grain yields However wood and fodder production increase an indeterminable amount

4 Policy Requirements

The simplest and fastest way to increase agricultural production and rural income is to apply phosphate fertilizer to rainfed cereal crops It is reasonable to expect an immediate 30% increase in yields The associated benefits are equally substantial but less predictable Another specific agriculture investment that will greatly increase cash crop production is pesticides for cowpeas (4 times increase in yields) Fertilizer and pesticides are not popular topics in USAID but they are essential to sustainable economic growth in Niger If needed, a less timid organization could take the lead in helping the GON develop policies and incentives to assure the application of these specific

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

inputs Their implementation should be structured so that they help, not hinder, the developing markets of other fertilizers and pesticides

These two interventions, implemented over a relatively short time with a reasonable transition to a free market, are essential for supplying the necessary “voltage” to run the activities that USAID/Niger has developed in SO2 and SO3 Without a significant increase in production, markets will be slow to develop and demand for credit will be low Without a significant increase in production, improved natural resource management will be limited to project sites and agricultural expansion will continue to degrade the land

Tahoua rock phosphate has potential for fulfilling most of the role of supplying phosphorus fertility It is bulkier than other fertilizers but the higher transportation cost will help keep it within Niger It is local material, simply processed (grinding)

GON, donors, agricultural research and extension organization should (1) determine the extent and quality of rock phosphate reserves in the Tahoua region, (2) develop application techniques of the powdered rock material that are more accepted by farmers, and (3) develop methods to easily distinguish between acid soils that respond to rock phosphate and other soils that will require the more soluble simple or triple superphosphate

Tenure and usufruct insecurity may be more important of an issue than equity when developing the Rural Code Insecurity is an issue more easily resolved and will allow Niger to progress more quickly toward sustainable agricultural production Its quick resolution can also reduce environmental degradation Once rights are assured then free market forces can react with investments and rents to balance the benefits of tenure resolution among Nigerien society Donor concerns about remaining problems of inequity can be addressed in other programs Never-the-less, much benefit will result if the GON assures that laws and incentives are developed which encourage sustainable management of the land and that policies are influenced by the economic importance of both livestock and agriculture

USAID’s SO3 is dependent on quick development of a Rural Code that encourages investing in improved natural resource management practices, an unlikely combination, certainly in term of “quick” If productivity and profitability significantly increase then those land owners with secure tenure will have incentives to invest in improved NRM practices This in-turn will provide demonstrations to the GON on which they can confidently develop policy for those areas with insecure tenure This next step is needed to resolve the contradictions between society and the environment It will require much support, coordination, and commitment among donors because established economic, social, and political relationships will be disrupted Inevitably these disruptions will occur and Niger will be forced to change – the increasing competition for natural resources requires an evolution of NRM

5 Validity of USAID/Niger’s Vision

SO2 and SO3 will not be achieve unless there is a substantial increase in agricultural production A major increase in phosphate fertilizer use will help USAID achieve SO2 and SO3

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

Improvement in resource tenure will be a slow process and will constrain the adoption rate for improved NRM practices discussed in SO3

SO3 focus is primarily on conservation, not production, as reflected in the emphasis on NRM technologies that primarily affect degraded lands (e.g., soil and water conservation techniques agroforestry). The NRM interventions mentioned in the Proposed Strategy Plan can be profitable but not as profitable as putting the same investments in nondegraded land.

The language of SO3 refers to forestry 3 to 1 over agriculture that is in sharp contrast to titles of USAID's activities (7 references to agriculture and 1 to forestry). Range and livestock are hardly mentioned at all. The shrub lands of Niger are important, especially for fuel and fodder, but they will not drive Niger's economy. For this reason SO2 and SO3 are weakly linked and depend on other donor activities to assure their success.

SO2 desire to reduce the amount of bribes paid by truck drivers to government agents is well placed for reducing the costs of transportation, improving road safety, and reducing the cost of road maintenance (i.e., damage caused by overweight trucks).

USAID is leading the way among donors with its emphasis on early warning and disaster mitigation. Mitigation is essential for economic growth in Niger and it supports the goals of SO2 and SO3. Considering the series of good agricultural production years DPM's activities may need to be slightly broadened to include proactive activities that reduce risk for those areas with the worst history of famine. Activities could include those that reduce the risks associated with low production years for example credit, food storage, food processing, and phosphate fertilization (Adelski *et al* , 1994).

C AGRICULTURAL MARKETING

This section has two purposes. First it is to identify constraints, infra structural, systemic and administrative that preclude optimal performance of targeted crops on local and regional markets. These constraints are not new, they have been the source of far too many studies and few actions. Therefore, this section will identify recommendations, in some cases, strategies to address very complicated issues.

Secondly, this section answers the question, is it possible for Nigerien agricultural commodities and services to compete on local and regional markets thus permitting rural enterprises to contribute to Niger's agricultural productivity and economic growth.

1 Methodology Error

Three processes were used to unravel the mysteries of agricultural marketing in Niger. They are

(a) Questionnaire/interviews. Two questionnaires, one for producers and other for entrepreneurs were developed. These questionnaires were used extensively in Maradi and Zinder Departments (See Exhibit 1a "Questionnaires"). The questionnaires were to be used to cross check information gathered in

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

the past and present. The interviews provided practical analysis and recommendations about agricultural marketing constraints as well as the role of the Government of Niger in private sector development.

(b) Literature search. Niger is very rich in studies and concept papers about constraints and impact of its agricultural marketing system. In fact, Niger is far, too rich in agricultural marketing and commodity subsector studies. If only half of what was spent for studies was used to address particular constraints, rural enterprises would be far greater contributors to domestic productivity than they are now. Nevertheless, the majority of the studies reviewed are of excellent quality and were often authored by host country nationals.

© A commodity systems/subsector approach was used to frame issues and make recommendations. This approach is congruent with commodity studies (rice, onions, fertilizer, among others) done by host country and expatriate consulting firms. Utilizing this methodology bodes well if your audience is the international donor community or the informal business sector. However, Ministry of Agriculture officials used the word "filere" often in conversation, but lacked understanding in the role of the public and private sector in a "filere."

2 Niger's Input Markets: Constraints and Opportunities

Similar to many other aspects of Niger's agriculture sector, agriculture input markets have been studied beyond the profitability of the market itself. The World Bank, USAID, DANIDA, DED, Japanese Agency for Cooperation, and GTZ have all done major studies of the constraints and opportunities of this subsector. Some studies were actually followed by investments (notably in Niamey, Tahoua and Maradi Departments) by both the international donors and the Government of Niger (GON). This section will address:

- (1) who the investors are in Niger's agriculture input market
- (2) where the investment have paid off
- (3) constraints to agriculture input market growth
- (4) recommendations

Two things draw attention to Niger's agriculture input market since the 1970s and 80s and. The first is rapid population growth against declining soil fertility. The second is severe cyclical drought conditions. Both conditions make it clear to the population and the government that increasing agricultural productivity is vital to the food security of the nation. Thus, in the mid 1970s and 80s, the GON moved to negotiate with international donors, primarily, France, FED, Germany and the U.S. to improve its input markets.

If natural forces drove input markets in the 1970s and 80s, inactive forces appear to drive Niger's input markets in the 1990s. A snapshot of Niger's input market would reveal (1) no national seed policy, (2) no national fertilizer policy, (3) well intentioned, but poorly coordinated donor and project financed inputs schemes, (4) little to absolutely no assessment or definition of the needs of small farmers and (4) no participation of the private sector in seed and farm tools markets.

Seed market

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

Seed Production Projects

As early as 1975, the GON through USAID began the Projet Cerealier National (PCN) designed to improve the infrastructure, market information and a system of production of improved and drought resistant seed in Niger. The project design called for a seed farm in Lossa for cereals and legumes and five seed multiplication centers in Hamdallaye (Tillabery), Guecheme (Dosso), Doukou- Doukou (Tahoua), Douromkossaou (Maradi) and Angoul Gamgi (Zinder). This \$50 million project was coordinated by the Institut National des Recherches Agricole du Niger (INRAN). The Lossa farm was charged with producing improved seeds. The multiplication centers were to multiply and adapt the seeds to local specifications. The farmers were to purchase the seeds directly from the centers. No private companies were included in the original seed subsector infrastructure. Very few, if any, operate now.

Ending in 1989, PCN had little success in its efforts to get improved seed in the hands of farmers. Even though the seed farm and multiplication centers still exist, high production costs, meager government financial support to the centers, insufficient technology transfer and the absence of a GON seed subsector policy left this subsector in limbo, if not disarray. A World Bank technical paper entitled Assessment of the Demand for an Supply of Agricultural Inputs, March 1994 reported that improved seed would increase millet and niebe production by 10 percent and 20 percent respectively.

In 1989, a follow on project was designed, which was referred to as the Projet Developpement des Activites Semencieres du Niger (PDASN), but actually started in 1991 by the Ministry of Agriculture and Livestock. This project was to build on the PCN experience to increase private sector participation in seed production and commercialization and to establish a national seed policy. It was terminated in 1992 due to a lack of funds.

Seed production capacity

Analysis of cereals and legume seed production capacity is difficult to determine as no production, price, or trade data has been collected since 1989. According to a March 1994 Ministry of Agriculture and the World Bank study, however, the five multiplication centers have the capacity to produce 180 tons of M2 on 300 hectares. To obtain the estimated 92,000 tons (millet, sorghum, cow peas and groundnuts) seed required to supply Nigerien cereal and legume farmers, seed production out grower agreements might be an option to establish with farmers.

NOTE: During the five year PCN project, the multiplication centers produced about 150 tons annually.

Supply Millet, Sorghum, Cow Peas

Most farmers produce their own seeds, setting aside one tenth of each crop as seeds, according to INRAN Maradi. As the seed multiplication centers are still open, farmers may, on an ad hoc basis, approach centers when planting material is available. Millet, sorghum and niebe seed, when available sell for 1,800 -2,300 cfa/kilo, prices drastically below the cost of production minimizing the availability of funds to run the centers. To make a bad situation event worse, the devaluation of the CFA made the cost of processing seeds even higher. Purchases of pesticides, fertilizers and energy required for seed processing is now further from the reach of the GON's seed multiplication apparatus.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

INRAN Maradi, which services Maradi, Diffa and Zinder Departments, produces and sells modest amounts of M1 and M2 of millet, sorghum, onion and cow pea seeds to farmers as they become available. In discussing the role of INRAN Maradi in the seed subsector, the Director and his deputy made it clear that the station's primary research responsibility was to produce improved M0 millet niebe seed for the Lossa seed farm. Secondly, it has programs (IFAD, World Bank) with the agriculture extension service to work through problems of seed performance and yield issues. Both the Service d'Agriculture and INRAN provide joint technical assistance through joint work plans to agriculture stations and agents at the arrondissement level. However, in recent years, the demand for improved (drought resistant, high yield) seed has increased so greatly, that INRAN Maradi produces approximately 55 tons of seeds last year. The INRAN Maradi director reported that research station directors in Burkina Faso, Benin and Nigeria approach INRAN seeking supplies of foundation seed.

INRAN Maradi says it has the additional capacity to produce 60-65 tons per year, but underlines the institute must have a firm contract to supply more seed to farmers and cooperatives. The station sells millet and sorghum seed at 250 cfa/kilo, niebe seed at 300 cfa/kilo and onion seed at 25 000 cfa/kilo. These seed prices have remained constant for the last four years (except onion seed). Peanut seeds also sell for 300 kilograms.

Farmers close to the Nigerian border, should they have the means, purchase seed there when they want to improve their current stock or diversify their crops. In Maradi, Zinder and Niamey, garden vegetable seeds from France are sold in retail shops. As most farmers lack funds and do not have access to credit, it is estimated that 80 percent produce their own cereals seeds. Only the Tarka Valley Basin Project (Tahoua Department) imports high quality wheat seeds from Saudi Arabia.

Rice

The Office National des Amenagement Hydro-Agricole (ONAHA) has target rice production and the production of improved seeds as a function of its rice production objectives. On its seed farm in Saadia, Seed M1 is multiplied and M2 and M3 are produced on irrigated lands.

Demand

Estimation of demand for cereal and legume seeds is impossible. No data is available. The most recent data from Ministry of Agriculture in 1989 indicates seed production during the 1988 growing season reached 200 tons which, theoretically, only address seven percent of national demand. Theoretically, Niger needs 92,000 tons of millet, sorghum niebe and peanut seeds (M3) annually according to the Annual National Plan. This demand is abased on the cyclical occurrences of drought, pests and seed loss.

The demand for improved seed is very low. Why? Purchasing power in rural areas is very low. Without available credit, pressure from the market for improved quality or diversified crops or attack by natural predators, there is little demand for commercially produced seeds. Interviews with small farmers in the Maradi and Zinder departments unearthed a very comprehensive reason for low demand for improved seeds. Farmers do not know where to get them. And, in the few cases when they have received improved millet or cow pea seeds, no information about how to use the seeds was available.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

Where purchasing power is growing, so does the demand for improved seeds. For example, onion seeds, produced commercially by INRAN, sold for 15,000 cfa/kg in 1994 have skyrocketed to 25,000 cfa/kg this year. Farmers from the reputed onion growing area in Galmi, through their cooperatives, make visits to INRAN Maradi to purchase seeds and get relevant fertilizer and crop management information. INRAN is barely keeping pace with the demand for onion seeds this year. Other crops where demand seems to include non-traditional or export products: sweet peppers, potatoes, tomatoes and peanuts.

Donor projects make up the primary demand for seeds. For example, the FAO Project Maradi, Project PASP in Tillabery, FIDA/PSN in Aguié provide credit to farmers for input or sponsor seed for grain swap activities. Most seeds (M3) are purchased from seed multiplication centers or through contractual arrangements with individual farmers and cooperatives.

Fertilizers

The fertilizer market situation is 90 percent dominated by the private sector, with government intervention through the Centrale d'Approvisionnement (CA), the government agency charged with fertilizer distribution. Fertilizer is available and at relatively low cost, because Niger's private sector imports subsidized fertilizers, mostly 15-15-15 and urea, from Nigeria. Northern Nigerian businesses are allotted quotas of fertilizer annually to supply farmers in their regions. With an eye for business – expansion – the Nigerian businesses include Niger fertilizer demand in their request to the Nigerian government. Nigeria's official fertilizer price is 150 naira/25kg sac. Dealers from Niger purchase from Nigerian traders at prices ranging from 300 to 600 naira/25kg sac. Trucked to Niger, 15-15-15 or NKP is sold on local markets from 2,500 to 5,000 cfa/50kg sacs.

Wide fluctuations in fertilizer prices effected by distance from the Nigerian border and season, requires still, additional explanation (by way of example). Nigeria, periodically clamps down on this well established illicit fertilizer trade with Niger. During the last three weeks of August 1995, Nigerian customs have virtually shut down fertilizer shipments to Niger and have levied heavy fines on the "smugglers". Hence, fertilizer prices on Niger's markets have reached as high as 6,000 cfa/50kg sac. A price that few small farmers can afford.

One more example, an interview on two small souchet farmers in the Maradi Department revealed they used 12 bags of 15-15-15 for every hectare of souchet. Limited by storage space and money, they purchased three quarters of their fertilizer needs at the beginning of the planting season at 3,500- 4000 cfa/sac. Already feeling the effects of the devaluation of the CFA and the floating free fall of the naira, the current price for additional fertilizer probably means the farmers' demand will go unmet. (See Fertilizer Table 1 for fertilizer price information)

FERTILIZER PRICE DATA

Table 1

CROPS	15-15-15	15-15-15	UREA
	JUNE	AUGUST	JUNE
NIEBE	2000 CFA/50KG	6000 CFA/50KG	2000 CFA/50KG

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

CROPS	15-15-15	15-15-15	UREA
ONION	3000 CFA/50KG	5000 CFA/50KG	2000 CFA/50KG
SOUCHET	2500 CFA/50KG	4000 CFA/50KG	2200 CFA/50KG

Source Interview with farmers and fertilizer importers in Zinder and Maradi (8/95)

However, the example above describes immediate, short term constraints. Every one is confident that the Nigerian government will relax its vigilance of "fertilizer smugglers" in a few weeks. A more long term constraint looms in the next two years. The Nigerian government, submitting to GATT/WTO pressure, announced that it will stop fertilizer subsidies to its own farmers in two years. Even though no one knows what the unsubsidized fertilizer will cost Niger's farmers, this coming event has raised some concern among Niger's fertilizer importers. And certainly it has given new importance to phosphate deposits in Parc W and Akker in the Tahoua Department.

Phosphate deposits in Parc W and Akker are not an immediate panacea. Technology and private and public investments issues must still be addressed. The International Fertilizer Development Corporation (IFDC), the International Crops Research Institute for the Semi-Arid Tropics (INCRISAT) and INRAN collaborate on research to determine crops yields, adaptability and diffusion issues of phosphate rock in Niger.

On farm trials of phosphate in Gobery recorded increased yields of millet by an average of 250 percent in the plots to which the phosphate fertilizers had been applied, according to IFDC Report, June, 1995. Led by IFDC's Senior Soil Scientist, Dr. Andre Batono, the research findings indicate that fertilizer consumption increased in Gobery from less than two metric tons of single superphosphate (SSP) in 1982 to more than 115 mt of SSP, urea and compound NKP fertilizers in 1988. In 1994, 98 percent of the farms in Gobery were fertilized.

The Netherlands is probably the largest international donor to invest in fertilizer research in West Africa. In April, 1995, the Netherlands Government signed a four year extension of IFDC-Africa's market development project - phase III of IFDC's activities in Africa. While phase I and II addressed fertilizer marketing transparency, privatization, country specific studies/research, and the use of phosphate rock, one particularly significant activity was the establishment of an African Fertilizer Information Database, which contains national fertilizer supply and demand statistics, national fertilizer prices, fertilizer trade information and identifies participants in the sub-Saharan fertilizer market.

Phase III will be particularly important for Niger. Phase III objectives are to

- 1 Restore the productive base of degraded soils in areas with agronomic potential for crop production and develop sustainable agricultural production systems that will generate increased farm production and income.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

2 Support national governments in West Africa as they change from manager, controller of fertilizer production, procurement and marketing (like Niger's Central d'Approvisionnement) to facilitator of competitive, private fertilizer marketing

INRAN's soils laboratory in Niamey is headed by competent U S trained, formerly USAID funded, host country soil scientists Dr Issaka Mahaman leads soil testing and phosphate fertilizer research Very cognizant that time is running out to identify a practical solution for affordable, yield enhancing fertilizer, INRAN, two years ago submitted a pilot phosphate exploration proposal to USAID/Niamey This same proposal has been dusted off and is once again available for donor support and funding

Dr Issaka discussed another phosphate research activity in which phosphate is mixed with compost Two primary issues are addressed in this research First, as phosphate fertilizer in powder is labor intensive for farmers, the compost would facilitate the phosphate mixing with the soil Secondly INRAN wants to know if the phosphate and compost would significantly increase yields

However, Dr Issaka was quick to note drawbacks with phosphate/compost trials First, household waste, necessary for compost, is abundant in urban areas, but is extremely scarce in rural areas And secondly, even though garbage dumps are plentiful in urban areas, they are often a melange of industrial, household and natural materials Therefore the availability of pure household waste may be limited

Current Fertilizer Marketing Constraints

The only thing less abundant than rainfall in Niger's agriculture sector is credit Credit is the major constraint to fertilizer use among small farmers Many small farmers take out loans from local businessmen in order to purchase fertilizers These same businessmen sell the fertilizers to the farmers This is a mixed blessing The same businessmen recall the loans when crops are harvested In debt with no other option than to sell their crops when everyone is selling, the farmers sell at pitifully low prices to pay off loans Farmers in Zinder and Maradi report they sell niebe as low as 2,500 cfa/100 kg sac at harvest time to repay loans to money lenders A few months later, the same niebe sells for 4000- 7,500 cfa/ 100 kg sac

International donor interventions in Niger's fertilizer marketing receive mixed reviews from farmers and private operators Cooperatives and individual farmers, in some cases, benefit from donor supported credit schemes to purchase fertilizers Credit is made available at the beginning of the growing season, usually at market interest rates In some cases, the donors underwrite the value of a loan for a consolidated fertilizer order from several villages The farmers reimburse the loan once they have sold their crops

Interviews with local Maradi and Zinder businessmen paint the credit strapped small farmers scenario Each businessman said the farmers know they can not have even a mediocre harvest without fertilizer They discussed openly how farmers suffered at the hands of market forces in order to run behind much need credits to obtain farm inputs and other household needs However, what to do

What to do? Well, several public and private sector representatives had very similar recommendations the creation of a donor sponsored, privately run marketing board The board would among other things, set floor prices, trade with small farmers, trade with larger producers and exporters, gain access

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

to formal Nigerian markets, untapped since SONARA shut down marketing operations. The formal sector market in Nigeria, reports Niger's niebe exporters, refuses to do business with informal sector exporters. The informal sector lacks the necessary storage space to accumulate large quantities of cowpeas or souchet to deliver large quantities for the formal sector importers and processors.

3 Output marketing

The section is to identify commercial crops and synthesize their constraints and opportunities. Several studies by USAID/Niamey, French Cooperation, FAO and the World Bank, have been done on cowpeas, onions, souchet, rice, peppers and peanuts. Whereas green beans offer excellent market opportunities in France and Germany, very little production data or local market information was available in Niamey. Green beans were exported to France as far back as 1970.

2a Onions and Garlic

Onion exports to West African markets offer the greatest return to farmers of any other commercial crop. Estimated sales revenue at 2.17 billion francs CFA in 1993 are up from 1.37 billion CFA in 1992. Onion and garlic marketing in Niger is run by the private sector, as in most parts of West Africa. Three onion varieties dominate 85 percent of sales, they are:

Violet de Galmi

Blanc de Galmi

Blanc de Soumarana

These onions place Niger as the premier onion producer in West Africa. The violet de Galmi is particularly appreciated in the regional markets of Togo, Ghana, Burkina Faso and Abidjan (Cote d'Ivoire) for its long shelf life and predictable production cycle.

Three post farmgate issues -- lack of credit, poor storage and conservation techniques, thus limiting staggered crop sales -- pose formidable constraints to improving Niger's market share on West African onion markets. Dutch and German technical assistance have made some progress in providing credit and storage technologies to onion farmers in the Tahoua Department. However, these interventions are the exception rather than the rule. The Galmi Cooperative in box 1 summarizes market constraints to farmers.

Market Share and Distribution

According to a USAID/Niamey funded study, Action Plan for the Development of Onion and Garlic Crops in Niger, Niger's share of the Ivorian and Ghanaian, Togolese and Beninois onion markets is between 40 and 60 percent and 60 to 70 percent of the Burkinabe market. Even though onion and garlic marketing is entirely a private sector domain and market share growth potential exists in secondary towns in West Africa, the lack of knowledge about ECOWAS export activities, customs and transit regulations pose serious obstacles to increased market penetration. Furthermore, Niger's marketers have little access to formal market operators. Nigerian merchants lack information about the marketing mixes of competing products and have limited capacity to react to competitive moves.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

In fact, central dispatchers (sarkin tasha) limit foreign buyers to certain buying points. Some merchants bar access to the markets or market information from foreign buyers. Central dispatcher collaborate with local officials to restrict parking areas for foreign trucks desiring to pick up onion shipments. The truckers collude with sarkin tasha to withhold market price information from producers.

MI ONION COOPERATIVE ction Export of Onions to

e

ON AND GARLIC MARKET STRAINTS

- Poor rural roads leading to production areas
- Lack of credit to purchase fertilizer and to pay for household needs during "soudure" or planting
- Lack of formal credit forces farmers to sell at harvest at unfavorable prices
- Storage capacity and preservation techniques are very limited
- Cozy arrangement between farmers and commission purchasers, thus depressing producer prices

Prices

Table 2 summarizes onion price information

Quantity	Destination	Price
		high/low
120kg/sack	Cote d'Ivoire	4,500 cfa (low) 25-30,000 cfa (high)
130kg/sack	Ghana	5,000 cfa (low) 30,000 cfa (high)
140kg/sack	Togo	5,500 cfa (low) 30,000 cfa (high)
100kg/sack	local market	2,000 cfa (low) 20,000 cfa (high)

Source: Galmi Onion Cooperative
* Sacks provided by buyers

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

2b Cowpeas

Cowpeas is the leading rainfed, cash crop cultivated in Niger, replacing peanuts. The severe climatic droughts in the 1970s and 80s and early 1980s, forced small farmers to find an alternative to peanuts. Intercropped with millet and sorghum, cowpeas requires no fertilizer and little rainfall. As a nitrogen fixer to the soil, cowpeas from a production and marketing perspective provides a win-win situation.

External market conditions

Primarily produced in Dosso, Zinder and Maradi, farmers and exporters have taken advantage of Nigeria's close proximity, 3 percent annual growth in cowpea imports and an insatiable informal sector. The Nigerian market is a bitter-sweet opportunity. Characteristics of the Nigerian market, at least, the late 1980's are:

- * Nigeria's strategy is to develop cow peas production domestically, therefore legislative and administrative constraints are placed on imports. Nigeria passed laws in 1991 to prohibit the import of cow peas, sorghum and other grains.

- * The naira has devalued significantly over the last two years making it difficult for Niger's cowpeas to compete with domestic production.

- * Niger is not the only cowpeas exporter to Nigeria, Cameroon and Chad export directly to the major southern cowpea consumption region of Nigeria, eliminating the Northern Nigerian middlemen and enjoying a greater profit margin.

- * No replacement has stepped forward to supply Nigeria formal sector (OSCUDA and NAMCO) cowpea market. Since SONARA's liquidation, this multimillion CFA market remains untapped.

- * Nigeria has very rigid, detailed administrative procedures on the import of foodstuffs. Nigerian exporters ignorant of the procedures, are forced to pay bribes to enter their product onto Nigeria's markets.

Internal Market Conditions

Small farmers sell their products over three seasons: harvest, rainy and dry season. Therefore, the price, abundance and distribution channels base themselves accordingly. Local buyers negotiate price and quantity with farmers prior to harvest. These local buyers or "commissionaires" are employed, more often than not, by large exporters or wholesalers.

Where there are cooperatives, they negotiate floor prices, transport costs and identify markets for its members. Cooperatives assist, when possible, members to get credit to stagger the arrival of cowpeas on local markets. Cooperatives sometimes act as "commissionaires" or exporters and buy and sell cowpeas on local and regional markets.

Down and upstream cowpea market structures are very weak. Controlled entirely by the private sector, government interventions are nil. As small farmers lack the means to invest in marketing structures, no

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

real investments have been made Prior to 1990, SONARA, a public owned marketing firm purchased and sold peanuts and cowpeas Endowed with a bloated bureaucracy, elaborate capital investments (silos, building, warehouses, private lodging), and an ever recurring drought, SONARA fell under the axe of structural adjustment

Whereas SONARA's departure from the peanut marketing was explicable, the peanut operations was loosing money, the cowpea operations was quite different In fact, exporting on an average of 30,000 tons annually, no Nigerien exporter has been able to supply former SONARA importers

Interviews with farmers and exporters in Zinder and Maradi Department reveal that the economics of cowpea production and marketing, for the small farmer, is dismal

Internal market constraints identified during interviews were

- * Credit, credit, credit Small farmers lack access to credit to cover the most basic of expenses

- * Cowpeas requires insecticide prior to harvest to eliminate parasites Insecticides are provided free of charge by the Ministry of Agriculture to small farmers However the Ministry does not have enough to full supply the farmers Therefore the ministry provides 60-70 percent of the required insecticide application The shortfall in treatment plays out in storing the cowpeas The parasites not fully eradicated, destroy stored cowpeas, sometimes as much as 100 percent

- * Storage techniques independent of insecticide treatment is also a constraint Improper storage facilities, or insufficient storage facilities is the cause of 30-60 percent post harvest crop loss

- * Cowpea prices are low, especially at harvest time Many farmers sell to repay loans, but barely recuperate enough profit to cover production costs See Table 3 1 Net Cowpeas Marketing Costs below

- * Farmers have no leverage in participating in cowpea pricing As there is no floor price, farmer, not in well organized cooperatives reap very meager profit margin

Net Marketing Costs Cowpeas

Average yield/hectare 125 kg/hectare

Harvest labor 300 - 700 CFA/day

Farmgate prices 60 CFA/kg (harvest season)

125 CFA/kg (rainy season)

200 CFA/kg (planting season)

Storage insecticides (free from Ministry of Agriculture)

30 -60 percent loss

Bagging (labor) 300 -700 CFA/day

Sacks/bags 12 bags @ 3,500 CFA

String 1 cord/sack 50 CFA

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

Sewing sack 50 CFA/sack

Loading bags on cart or truck 50 CFA/bag

Transportation (examples)

50 kg or 100 kg Zinder to Kano 500 cfa

50 kg or 100 kg Zinder Mirriah (30km) 200 CFA

50 kg or 100 kg Maradi to Sai Sabon 33 km 300 CFA

2c Green Beans and other Fresh Produced Marketing

Fresh produce production in Niger is scattered over several departments, but major production areas are Tillakaina Niamey (along the river) and Maradi (along the Goulby River) It is difficult to get production data, as most of the farmers are not in contact with Ministry of Agriculture officials and produce production and marketing is in the hands of the private sector

Produce marketing especially to Europe, primarily France, began around 1967 Tillakaina's cooperative is the only cooperative that exports produce, green beans at present It exported approximately 850 tons in 1990 Tillakaina has 62 hectares under irrigation and is equipped with a cold storage pack house and farmers own their property Another contributing factor to their ability to export is the cooperative is situated 150 km from Niamey on a well maintained road

SONIPRIM and JIC were exporters until 1985 In 1982, Niger was one of the largest produce (pineapples, green beans, mangos, chili peppers) exporter to France, shipping 12,000 tons SONIPRIM closed its doors in 1983

Green bean exports to France take place from November to March This market face numerous constraints, internal and external

1 SONIPRIM closed down, in 1983, due to frequent changes in expatriate management SONIPRIM was the best organized production and marketing company of produce for export in Niger

2 Transportation The number of flight going from north to south were reduced when UTA went out of business and Air France reduced the number of flights through Niamey

3 In addition, Combis have replaced, by 40 percent, air cargo service to Niamey uniting passenger and cargo/freight trade

4 Downturn in the national economy does not permit producers to invest in export crops These crops are perceived as secondary to staple crops, millet, sorghum and maize

5 Lack of a commercial strategy for produce at the Ministry of Agriculture or the National Center for External Commerce

6 Lack of formal sector produce operators French and Ivorian importer/wholesalers will require phytosanitary certificates and growing conditions because of their clientele

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

Interviews and studies confirm that demand for Niger's produce still exists on external and regional markets. They are

1 External market

- a SICA Avignonnaise (major green importer, supplied currently by Burkina
- b Fruimacop currently importing green beans from Tillakaina Cooperative
- c SICA AMCA, a French cooperative currently importing from Egypt

In addition, COLEACP and la Goele have already expressed interest with Tillakaina their desire to import green beans from Niger to the Rungis market

2 Regional market

a Abidjan is a market largely untargeted by Niger's exporters. Green beans, onion, garlic and potatoes are the primary produce items demanded. INDEX and SOVIFRAIS are two major wholesalers that put out feelers for suppliers in Niger

3d Nigeria - Niger Trade Relations

Nigeria is Niger's most important regional trading partner. Sharing a 1500 kilometers border, cultural and ethnic similarities with Northern Nigeria, commercial exchanges have existed before the two countries became modern States

Niger's primary exports to Nigeria are cattle, hides and skins and cowpeas. The sole source of trade data to determine volume and value of Niger's exports to Nigeria would be the customs service. As most agricultural trade between Niger and Nigeria is informal, this data provides less than an accurate trade picture. Niger's Ministry of Agriculture and Livestock has estimated, nevertheless, annual volume of trade of primary exports to Nigeria

Livestock Trade

Goats, sheep and cattle represented 95 percent of livestock exported to Nigeria, according to the Niger/Nigeria Mixte Commission. Principal exporting provinces, Dosso, Maradi, Zinder and Tahoua exported livestock valued at 7.7 billion CFA in 1993 and 6.3 billion in 1992.

Hides and Skins

Niger exported 254,635 hides and skins in 1992, in which 90 percent went to Nigeria. Total hides and skins trade was 147 million CFA in 1992 and 169 million CFA in 1993. Niamey, Maradi and Zinder Departments were principle areas of production and origin of exports of hides and skins to Nigeria (Source: Niger-Nigeria Mixte Commission)

Cowpeas

Estimates of cowpeas shipped to Nigeria in 1992 was 404,808 tons and 424,824 tons in 1993. Cultivated primarily in the Dosso, Zinder, Maradi and Tahoua Departments, over 80 percent of Niger's cowpeas are shipped to Nigeria, while a very small quantity is consumed locally by the rural poor. It is the single source of protein among the rural poor.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

Niger Export Trade Summary (Millions of Franc CFA) to Nigeria

	1992	1993
Betail	6,305	7,739
Cowpeas	12,569	9,118
Hides and Skins	147	169

Source: Projet d'Analyse et de Suivi de la Politique Economique (PASPE) March 1995

Nigerian largest exports to Niger are petroleum, electricity, sugar and grains (millet, maize and sorghum). While wheat flour, processed foods and cigarettes are big ticket items for Nigerian exporters, grains remains among the "big three" in Nigerian exports to Niger.

Four issues plague trade relations between Nigeria and Niger:

(1) Foreign Exchange procedures are extremely cumbersome and time consuming. Nigeriens exporting goods to Nigeria may wait six months before their accounts are credited for products delivered. Steps:

- * Receipts are deposited in local Nigerian bank
- * Deposit is then transferred to Nigeria's Central Bank
- * Central bank sends naira to a clearing house
- * Naira must then be transferred to the "Chambre de des compensations" as naira are not recognized in the zone franc
- * The "chamber" sends the CFA to Niger's central bank
- * Niger's central bank forwards the deposit to the entrepreneur's local bank

Most large entrepreneurs in Maradi and Zinder underlined this process as one of the main reasons they bypass the commercial banking system for foreign exchange.

(2) Distrust between Niger's entrepreneurs and Nigeria's administrative enforcement. There is certainly enough room for distrust. It is expected that Niger's exporters will pay bribe for any and all services. And they do, whether they have all the required documents or not.

(3) Nigeria has an elaborate administrative apparatus, with many complicated, complex regulations. Nigerien exporters and even public servants have never gotten a handle on these regulations. Consequently, Niger's private sector representatives are constantly run afoul of Nigeria's administrative procedures.

(4) Niger's farmers benefit from subsidized fertilizer from Nigeria. The fertilizer was never intended to be sold on Nigerien markets at the behest of GATT/WTO. This subsidy to Nigerian farmers

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

The Government has many types of interventions to assist farmers and exporters to market agricultural products on the books only. The GON lacks funding to implement very basic interventions in input or output marketing

However, government agencies with very modest resources, but were identified by exporter, wholesalers and growers for their services are

Agency	Function
Centre National du Commerce Extérieur	Identifies markets, market constraints, organizes visits to trade shows, provides certificates to export
Chamber of Commerce for CNCE	Provides a meeting place, acts as outpost
INRAN (Maradi)	Sells onion, cowpea and millet seeds
UNRC (at Arrondissement function only)	Sells fertilizer, organizes marketing (at Arrondissement)

6 Validity of Mission Vision Agricultural Marketing

USAID/Niger's approach to agricultural marketing, for the most part, provides credit programs in rural areas. Credit, after rainfall, is the most significant element to production and consequently marketing of food and agricultural products in Niger. This single lane approach is very focused, allowing the mission to plan, execute and monitor its activities with WOCCU, CLUSA and CARE. However, is credit alone enough?

Through reflection and input from SOs, the mission will, I believe, expand its purview of activities towards agricultural marketing. Credit, alone, is not enough. While it may provide short term results, for example, acquisition of fertilizer, staggering product sales thus precluding depressing market prices two major obstacles to significant productivity exists. They are (1) lack of output market structure and (2) input markets lack reliable seed and fertilizer sources

To impact agricultural productivity in rural areas, USAID must, in collaboration with other donors, wider its current credit driven strategy in assisting agricultural marketing. The SO2 team has the opportunity to build on USAID's solid credit projects, especially if the current credit programs can be shaped to become independent of USAID funding in the next five years

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

4 RECOMMENDATIONS

a Input Markets

Immediate or short term actions (1) Decentralize current seed research and multiplication systems, (2) cut costs at multiplication centers and INRAN, by contracting with small farmers the multiplication of M2 and M3, redefine seed varietal research priorities and strengthening INRAN's capacity to provide seed if given enough time, (3) initiate quality control systems in seed production and certification, and, (4) maintain a national seed security stock, while encouraging the creation of privately managed seed security stocks

In addition, donor and project coordination is required to stimulate the demand and supply of seeds. At present, donors and projects are creating a demand for improved seeds, while small farmers continue to use traditional seed production and storage. Even though improved millet and niebe seed might improve production by 10 percent and 20 percent respectively, a rational system for seed dissemination is necessary to avoid creating short-term, unrealistic demand for seeds at the expense of strengthening the traditional, informal seed subsector (current seed practices)

It is recommended that the seed farm at Lossa and INRAN Maradi contract directly with small farmers to multiply millet, sorghum and cowpea seed at M2 and M3 levels. Farmers will require some training. At present, they produce seed stock for their personal use, with production costs less than the multiplication centers. Lossa and INRAN Maradi would be primarily responsible for installing a system of quality control, grades, standards and inspection on a fee for service basis. The quality control services would be written into the contract between the seed farm (Lossa), INRAN and the small farmers

NOTE This recommendation will only succeed with clear public/private sector partnership. It is therefore recommended that an outside facilitator be invited to facilitate dialogue about a self sustaining seed industry and help the two parties develop the parameters of the partnership

Medium term actions Return to the *Projet de Developpement des Activites Semencieres* recommendations of 1992 **Initiate the process to establish a National Seed Policy to restructure and reform the seed subsector**. This restructuring should include (1) Strengthening relations and work plans among INRAN, seed multiplication centers and extension services, (2) re-establish national and regional committees (representing groupements, small farmers, cooperatives at arrondissement and village levels) to include an even number of public and private sector representatives³³ (3) withdrawal progressively from production of M2 and M3 seeds while providing incentives to invite cooperatives and private companies to fill the seed production void

Rationale First, the lack of a national seed policy is the primary obstacle to a functioning agricultural input market in Niger. The GON's inertia regarding its roles and responsibility in the seed subsector,

onal committees would distribute trial seeds to farmers and record farmer feedback. organize sometimes with the Service d'Agricultur
ation workshops

nd discuss seed distribution systemic issues. And finally, the committees propose ideas to improve farmer access to improved seeds

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

precludes private sector entry and investment. The GON, itself, lacks financial and infrastructural resources to maintain the cereals seed farm in Lossa or the five seed multiplication centers in the departments. Current seed production and marketing conditions stagnates around failed seed projects of the 1970s and 80s and. They did not work then and leaving them in place now will not make them work in the 1990s.

Second, USAID's Global Bureau Office of Agriculture has buy-in mechanisms with resources experienced in seed industry development in Africa and Latin America. In collaboration with Agricultural Cooperative Development International and American Seed Trade Association, Mississippi State University has worked on developing private seed industries for USAID missions in Burundi, Swaziland and Lesotho.

* Short term recommendation. SO2 and SO3 should establish an ad hoc agribusiness advisory group to discuss market constraints and solicit advice about input and output markets. Among the fifteen or sixteen advisory group members, there should also be one or two public sector input (CA, ONAHA, INRAN) or output (OPVN) market representatives.

Rationale. Niger's informal agribusiness sector perceives donors through an extremely narrow optic. Through working relationships, SO2 strategy meetings, advisory group meetings and collaboration on projects, business operators might begin to undertake joint donor -- private sector activities.

Donor and private sector representatives relations need to evolve into business partnerships. Why? First, for example, in interviews with large business operators in Maradi and Zinder, it was clear the major players know each other, through religious, social and business transactions. However, when donor representatives initiate contact with the business community to discuss marketing constraints, input markets, financing, judicial and administrative bottlenecks, two questions always emerged: (a) What's the hand out? or (b) What hoops do I jump through to get a piece of the action? Very few, if any persons interviewed saw themselves as potential economic development partners with donors in a (market) demand driven activity.

In a country like Niger, where the government coffers are bare and the government is trying to withdraw from addressing constraints to input and output market activities, donors are valid potential short term partners. Therefore, setting up an agribusiness advisory group would be a valuable, long term economic development lesson.

Second, the informal sector business persons bring practical, private sector know-how and information to the table. One excellent suggestion from a business person, made during an interview in Galmi, was simple. A practical, low cost way to increase productivity of onion farmers is improve storage techniques. Farmers sell their onions within the first month of harvest, because storage techniques are so poor, and they may experience 30-60 percent product loss thereafter.

Thirdly, the business community knows when market forces are going to change and could advise the mission ahead of time how projects could be effected.

Finally, the ad hoc group could serve as a first step in setting up a West Africa Enterprise Network activity in Niger. In other West African countries, this network is an independent, self-financed policy

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

dialogue and reform mechanism. In addition to obvious networking opportunities, the network informs and educates the private sector about the power and responsibility it has towards the national economy as well as the economy of the region. And the most important part, all ideas, directives and actions are implemented and financed by the network members.

* Short term economic growth actions. SO2 and SO3 committees should convene donors currently active in creating demand and supplying fertilizer in Niger to discuss a common framework for intervening in the fertilizer and other input markets.

Rationale (1) Inconsistency in donor fertilizer programs send confusing messages to stewards of natural resource management and to current and to potential private sector operators in the fertilizer market. For example, Japan donates thousands of tons of fertilizer annually to CA with no framework about its use. Sometimes the fertilizer is re-sold to cooperatives. Other times it is given away, but the cooperative or farmers pay transportation costs. And then again, it may be stored for "a rainy day."

USAID does not provide fertilizers, but finances credit schemes that permits the purchase of fertilizer through WOCCU, CLUSA AND CARE International. ACDI/Canada has a similar scheme in the Diffa. Whereas, the jointly donor funded (French and GON) cotton production project in Tahoua distributes fertilizers and all other input free of cost. The fertilizer market is caught somewhere between subsidized imports (Nigerian) with 50-100 percent price fluctuations and inconsistent donor interventions. No immediate action can be taken to stabilize imported fertilizer prices, however, better input market understanding and a common framework of action would limit donor generated confusion.

* USAID/Niamey should collaborate with IFDC-Africa, INRAN and ICRISAT in a pilot to encourage private sector exploration of phosphate rock in Akker, Tahoua. As IFDC and INRAN have worked on this issue since 1982, USAID should not take a lead role, but perhaps provide technical assistance, market analysis and funding on an as needed basis.

Rationale. It is clear that IFDC-Africa, in collaboration with INRAN have established phosphate rock trials as a research priority. Research was required, and is still needed, to develop phosphate pellets, phosphate compost mixtures, or some mechanism to decrease the labor intensiveness of applying phosphate in soil. Donor funding is required to initiate a phosphate fertilizer pilot exploration and to attract the private sector in formal fertilizer production and distribution channels.

IFDC has extensive experience in West Africa, as well as Asia, in fertilizer research, facilitation of private section production and marketing of fertilizer. Similarly, USAID has collaborated with IFDC in establishing fertilizer markets in developing countries. This partnership offers a significant step forward in increasing crop yields, establishing private section production and marketing of a fertilizer market and continuing to develop a fertilizer subsector, not just in Niger, but in the West Africa region.

b Output markets

Recommendations

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

Short term/Immediate Actions SO2 should, in the interest of increasing small farmer productivity, offer technical expertise and other resources to improve storage and conservation practices of cowpeas, onion and maize

Interviews with small farmers, conducted for the 1995 Onion Subsector Study and the 1991 Niebe Subsector Study indicated that storage and conservation remain obstacles to marketing good quality products. Cowpea information indicates that farmers lose 30-60 percent of their crop from insufficient or incorrect use of insecticides and poor storage conditions. As for onion post harvest loss, farmers report losses ranging from 30 to 50 percent after one month of storage.

Not only do good storage and conservation allow farmers to limit product loss and sell better quality products, in the case of the small farmers who are heavily in debt at harvest time, it gives the farmer a better chance to play the market. In Galmi, the executive director of one cooperative reported that the large "commercants" share only a part of the blame when farmers receive 3,000 cfa for a 100 kilo sack of onion. Onion farmers willingly accept lower prices at harvest time, even when they are not strapped for funds, because they fear that if they have not liquidated their product within a month after harvest, the onions will rot in storage.

How much are the farmers using? In October 1994, freshly harvested onions sold at 2,000 cfa/ 100kg sacks in Galmi. Five months later, the same 100kg sack of onions sold for 25,000 -30,000 cfa. Today, onions remaining from the 1994 growing season are priced at 12,000 cfa/100kg sack.

The SO2 committee should consider various technical assistance options that can provide low cost, experienced expertise in the conservation and storage of cereals, legumes and allium. The U.S. Department of Agriculture's Office of Small Agriculture, Cooperative State Extension Service and Agriculture Research Service have experience in conservation and storage of food crops in tropical climates in the U.S. and abroad. A Resource Services Supply Agreement, already in place with the U.S. Department of Agriculture could be the vehicle to obtain storage and conservation technical assistance in the next two to three months.

Should the committee decide to use expertise from CGIARs, mandated to provide technical backup to African national agriculture research systems and commodity networks, the Center of International Tropical Agriculture (CIAT) or the International Institute for Tropical Agriculture (IITA), USDA's FAS/International Organizational Affairs office would be the appropriate mechanism to take advantage of resources already on the continent.

In addition, the Post Harvest Institute for Perishables (PIPS) is an excellent resource for literature and human expertise in the storage and conservation of crops in both tropical and temperate zones. Housed in Moscow, Idaho, this resource can be tapped by the Global Bureaus' Office of Agriculture. The Center of International Tropical Agriculture and International Institute for Tropical Agriculture have long experience in East Africa, especially in Tanzania and Uganda transferring appropriate technologies in onion conservation and storage construction.

Medium to Long Term Action SO2 and SO3 committees should collaborate to develop cowpeas, souchet, produce (tomatoes, sweet peppers, other garden vegetables) and onion commodity subsectors in order to increase agricultural productivity in very lucrative commercial crops without sacrificing the country's natural resource base.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

Rationale Niger's informal sector is the backbone of the country's agriculture, small and microenterprise sectors. As the very nature of the informal sector connotes, it continually works around government and formal sector obstacles. SO2 and SO3 committee members have a window of opportunity to address critical agricultural marketing constraints across several commodities in the next two to five years. How these constraints are addressed will determine the agriculture sector's productivity in contributing to future gross domestic production. The constraints in question are

- * National seed policy. One is needed (1) to get the public sector out of the private sector's domain of producing and marketing high quality, high yielding seed for commercial crops, and, (2) to diversify commercial production through seed multiplication and to create off-farm employment by generating commercial agricultural services (transporting, packaging, marketing) in rural areas.

- * Framework to conserve natural resources and to produce and market fertilizers in Niger, once imported fertilizer from Nigeria is no longer subsidized. The assumption is that phosphorous may become an option to replace imported NPK (15-15-15). Such a framework should also include guidance and discussion with donors to shape their policy regarding creating demand and supplying fertilizers.

- * Conservation and storage facilities and techniques to capture productivity growth in commercial crops. Post harvest loss stagnates growth in production achieved through improved seeds, fertilizers, improved farm practices and the enthusiasm for credit and savings among rural populations. Improved storage in onion and niebe, alone, could more than double income of farmers in Maradi, Zinder and parts of Tahoua.

- * Market news and information reporting on radio in at least three or four national languages. Information is power! Farmers in Galmi reported they sold 100 kg sacks of onions for 2,000 -2,500 cfa during harvest time on the local market. And 130 kg and 140 kg sacks for 4,500 - 5,000 cfa for the Togo and Ghana markets. The same onions are resold at 20-30,000 cfa in Togo, Ghana and Niger's markets. Ignorant of the prices and market conditions, the farmers felt they were desperate for money and unloaded their stocks. Informed about price and market conditions, they might reconsider their options.

Rationale Market information, technology, and business oriented public policies are critical parts of any commodity subsector. If any one of these elements are in jeopardy, opportunities for market distortions increase. At present, only the cotton subsector is fully integrated. Whereas market opportunities appear good for niebe and onions on export markets (See commodity case studies) and produce on local urban markets, weak commodity subsectors reduce farmer income and negatively impact production.

To initiate strengthening within the above commodity subsectors, it is recommended that an institutional contractor be hired to procure and manage necessary expertise and services to assist in strengthening specific subsectors in five departments. The institutional contractor should have experience in francophone West Africa in the areas of public and private sector collaboration in commodity subsector development. Of equal importance, the institutional contractor should have the capability to draw on expertise from the U S food industry, specifically commodity and trade associations.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

More specifically the responsibility of the institutional contractor is to develop working relationships among the association of "commercants", cooperatives (Union sobs-regional des cooperatives) transporters, financial services representatives, chambers of commerce, donor projects and appropriate government agencies (OPVN, ONAHA, CA, INRAN, among others) The institutional contractor will, based on the recommendations of the economic assessment team, focus on three specific national policy issues

The first, a national seed policy that will permit private investment, management and dissemination of improved seeds for commercial crops. Public sector agricultural research institutions crucial to technology development and industry regulatory issues, will also be responsible for convening and reporting all aspects of this policy initiative to the industry and to the general public

The second will be a fertilizer industry action. The action will be to develop a fertilizer industry marketing framework between donor projects and the private sector. For further detail, see fertilizer recommendations above. Such a framework will eliminate market distortions created by well meaning agriculture/rural development projects

The principal responsibilities of the institutional contractor in these two policies issues will be

- To collect and synthesize the economic, political and social interests of concerned parties, in order to articulate the importance of the policy question in clear, simple terms
- To do strategic analysis of various interest in order to arrive at consensus building
- To organize study tours and learning opportunities for key players involved in the policy development process
- To hire expertise to address strategic "thinking" process, that is, the inter-relationship between finances, human resources, time and the end product
- To access mediation and facilitation expertise to insure good communication among key players
- To put into place information management resources to permit key players to make intelligible decisions
- To bring closure to the process

A second action regarding the fertilizer industry is as important as the market distortion issue. It will entail the evolution of a national, private fertilizer industry generated from phosphate deposits in the Tahoua Department. USAID, at the recommendation of the Economic Assessment Team, will collaborate with national business community, GON, and other donors to extract, process and distribute phosphate fertilizer

Recommendation

Medium term actions. Return to the *Projet de Developpement des Activites Semencieres* recommendations of 1992. Initiate the process of establishing a National Seed Policy to restructure and reform the seed subsector. This restructuring should include (1) Strengthening relations and work plans among INRAN, seed production centers and extension services, (2) re-establish national and regional committees to include an even number of public and private sector representatives, (3) withdrawal progressively from production of M2 and M3 seeds while providing incentives to invite cooperatives and private companies to fill the seed production void

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

Rationale The lack of a national seed policy is the primary obstacle to a functioning input market in Niger. The GON's inertia regarding its roles and responsibility in the seed subsector, precludes private sector entry and investment. The GON, itself, lacks financial and infra structural resources to maintain the cereals seed farm in Lossa or the five seed multiplication centers in the departments. Current seed production and marketing conditions stagnates around failed investments in the 1970s and 80s. They did not work then and leaving them in place now will not make them work in the 1990s.

Immediate or Short term actions (1) Decentralize current seed research and multiplication systems, (2) cut costs at multiplication centers and INRAN, by contracting with small farmers the multiplication of M2 and M3, redefine seed varietal research priorities and market INRAN'S capacity to provide seed if given enough time, (3) initiate quality control systems, and, (4) maintain a seed security stock while encouraging the creation of privately managed seed security stocks.

Donor and project coordination regarding the process of creating demand and supplying seeds is required. At present, donor and projects are creating a demand for seeds, while small farmers have yet to abandon traditional seed production and stocking. A rational system for seed dissemination is necessary to avoid creating short-term, unrealistic demand for seeds at the expense of strengthening traditional, informal seed subsector.

D Small and Micro-Enterprise (SME) Development

1 Introduction Importance of Micro-enterprises in the Nigerien Economy

[TO COME]

2 Methodology

[TO COME]

3 Linkages Between Micro-enterprises and Other Sectors of the Economy

[TO COME]

4 Sub-Sector Case Analyses

Given the broad scope of SME activity, our analysis of constraints to SME development is focused specifically on those areas of SME development which have strong linkages to the rural sector--primarily through processing agricultural products or in supplying needed inputs to agriculture. The approach taken here has been to concentrate on one sub-sector in some detail, through a combination of literature reviews and field interviews with sub-sector participants, and to analyze a limited number of other subsectors in a more rapid fashion through a literature review and a limited number of interviews. The sub-sector dealt with in detail is the peanut oil processing subsector, which has recently emerged as a major area of activity in several regions of the country. Interviews with sub-sector participants were conducted during two days of research in Maradi and in the neighboring village of Dan Issa. In Maradi, a total of 5 women peanut oil producers were interviewed,

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

along with 2 peanut millers and 1 cooking oil wholesaler and a representative from an industrial peanut oil refinery Interviews in Dan Issa were with the manager of the women's peanut oil cooperative and two cooperative members In addition, this account relies heavily on information supplied by the Vice President of the women's' traders association in Maradi who served as the interpreter for interviews conducted in Dan-Issa and Maradi and who is active in the peanut-oil trade Because of the small number of participants interviewed as well as the unsystematic nature of the sample, the results presented here are not meant to be taken as a full-blown sub-sector profile--but rather as a rapid "snapshot "

a Case Study Peanut Processing

(1) Introduction

Cooking oil consumed in Niger comes from mainly two sources industrially refined palm oil from the Côte d'Ivoire sold under the brand name "Dinor," and MSE produced peanut oil that is produced in both urban and rural areas almost exclusively by women The MSE peanut oil sector has been undergoing something of a boom in recent years due to the closure of Niger's only industrial cooking oil refinery, SICONIGER in 1989 and the devaluation of the CFA franc which has added to the transport costs of importing Dinor

Indications of the magnitude of the boom in MSE peanut oil production can be seen by comparing the estimated value added from MSE peanut oil production given in a 1987 survey of MSEs conducted by the Direction de la Statistique which lists the total value added for MSE oil production at 601 million FCFA with estimates from the current study for 1994 which show a value added from peanut oil production of 802 million FCFA Figures on imports and estimated market demand given in Table 4-1 for the last few years also show a gain in market share for MSE oil producers relative to imports of Dinor If anything, Table 4-1 probably understates the MSE sector's share of the market since the high levels of imports relative to total market demand in 1991 and 1992 may indicate that the CADEG market demand estimates are too low This would mean that the gap between imports and total consumption, which is filled by MSE production, is likely to be considerably larger than shown in Table 4-1

Table 4-1

Cooking Oil Demand and Imports, Tons

Year	Total Market Demand	Imports		Estimated MSE Oil Production	MSE as % of Total Demand
		Peanut Oil	Palm and other oils (Dinor)		
1994	17,624	29	10,075	7,520	43%
1993	17,060	77	12,536	4,447	26%
1992	16,516	N/A	17,568 1/	(?)	
1991	15,982	N/A	18,358 1/	(?)	

Source CADEG Etude Filiere Cultures Pluviales Ministère de l'Agriculture et de l'Élevage Mai 1995

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

1/ Figures are for all vegetable and animal oil imports the majority of which is comprised of Dinor

Despite the current boom, the medium term prospects for MSE peanut production are uncertain. This is because SICONIGER has recently come under new management and is in the process of gearing up to begin large-scale production of industrial peanut oil after the 1995 harvest season. SICONIGER has already begun buying peanuts and producing test batches of oil for market trials on a modest scale. When it begins full production during the 1995/96 season, SICONIGER plans on purchasing 25,000 tons of unshelled peanuts during the year. This represents XX% of 1994-95 national production and 59 percent of the production in the Maradi Departement. In terms of peanut oil, SICONIGER this level of activity would translate into 10,351 tons of refined peanut oil--or roughly 57 percent of the total market demand³⁴. Furthermore, if it can operate at full capacity, (an estimated 18,500 tons per year) SICONIGER will have the potential to just about meet the estimated total current market demand for cooking oil. Although it is not yet clear how successful the new SICONIGER will be, it will almost certainly put increased pressure on margins in the MSE peanut oil sub-sector.

(2) Participants in the MSE peanut oil sub-sector

The major participants in the peanut oil sub-sector include the producers themselves, millers and traders. The roles of each of these groups are profiled briefly below.

Producers The peanut oil producers are located in both rural and urban areas in the major peanut producing regions. As mentioned above, peanut oil production is a women's activity. The Team encountered no cases of men engaged in producing peanut oil. In all the interviews conducted with women in Maradi and Dan Issa it was clear that MSE peanut oil production is organized along family lines with a senior woman managing the operation and supervising a number of junior female family members. The number of women engaged in such units varies from around 4 to 10. The larger MSEs are able to process about two 50 kilogram sacs of peanuts per day, yielding from 22 to 26 liters.

The work of these women is extremely arduous and time consuming. The oil extraction process has six steps:

- **shelling**, which is done with the aid of a mechanical sheller (decortiqueuse) which the women either possess or rent from a neighbor or nearby trader,
- **sorting and threshing**, in which the peanuts are separated from the broken shells by tossing the mixture in the air and letting the wind separate out the peanuts from the lighter waste materials
- **roasting**, where the peanuts are heated in a heavy pot over a wood or charcoal fire supplemented with broken shells,
- **grinding**, in which the women usually take the roasted peanuts to a miller operating a diesel mill who grinds the roasted peanuts into peanut butter, a few women also grind their own peanuts using a mortar, but most seem to find that the time and effort saved by using the services of a miller are worth the added monetary expense,

³⁴ Percentage based on SICONIGER's oil extraction rate which they report to be 41% and on a straight line extrapolation of the demand estimates in table D-X for 1995 which gives a figure of 18,207 tons.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

- **oil extraction**, in which the peanut butter is mixed with water and heated in a heavy pot while continually grinding the mixture with a wooden pestle,
- **peanut cake fabrication**, whereby the women take the concerted residue from the extraction process, form it into balls and fry it for sale in the market

The urban women interviewed in Maradi usually obtain peanuts either by sending a family member to surrounding weekly village markets to purchase peanuts or buy directly from wholesalers in the Maradi market. Many women purchase actively in rural markets during the harvest season, but buy peanuts in Maradi when supplies drop and prices rise in rural areas. Maradi women have also started to purchase peanuts from farmers seeking to sell directly to SICONIGER. In rural areas, women either use their own household production, purchase peanuts from other villagers, or buy from traders in neighboring markets.

Once the oil is produced, the urban women interviewed usually send their daughters to sell it to cooking oil traders in the markets that are held two times a week in Maradi. Occasionally they will try to sell as retailers to final consumers at a price that may be 25 CFA above the wholesale price paid by the wholesalers, but most often they sell to the larger traders who group the production of the Maradi women into empty Dinor 200-liter drums. The principal by-product of peanut oil production, peanut cakes, are usually sold to women retailers or are retailed directly in the market by the producers' children. Rural women sell their production in their villages, in neighboring villages and in regional centers depending on relative prices.

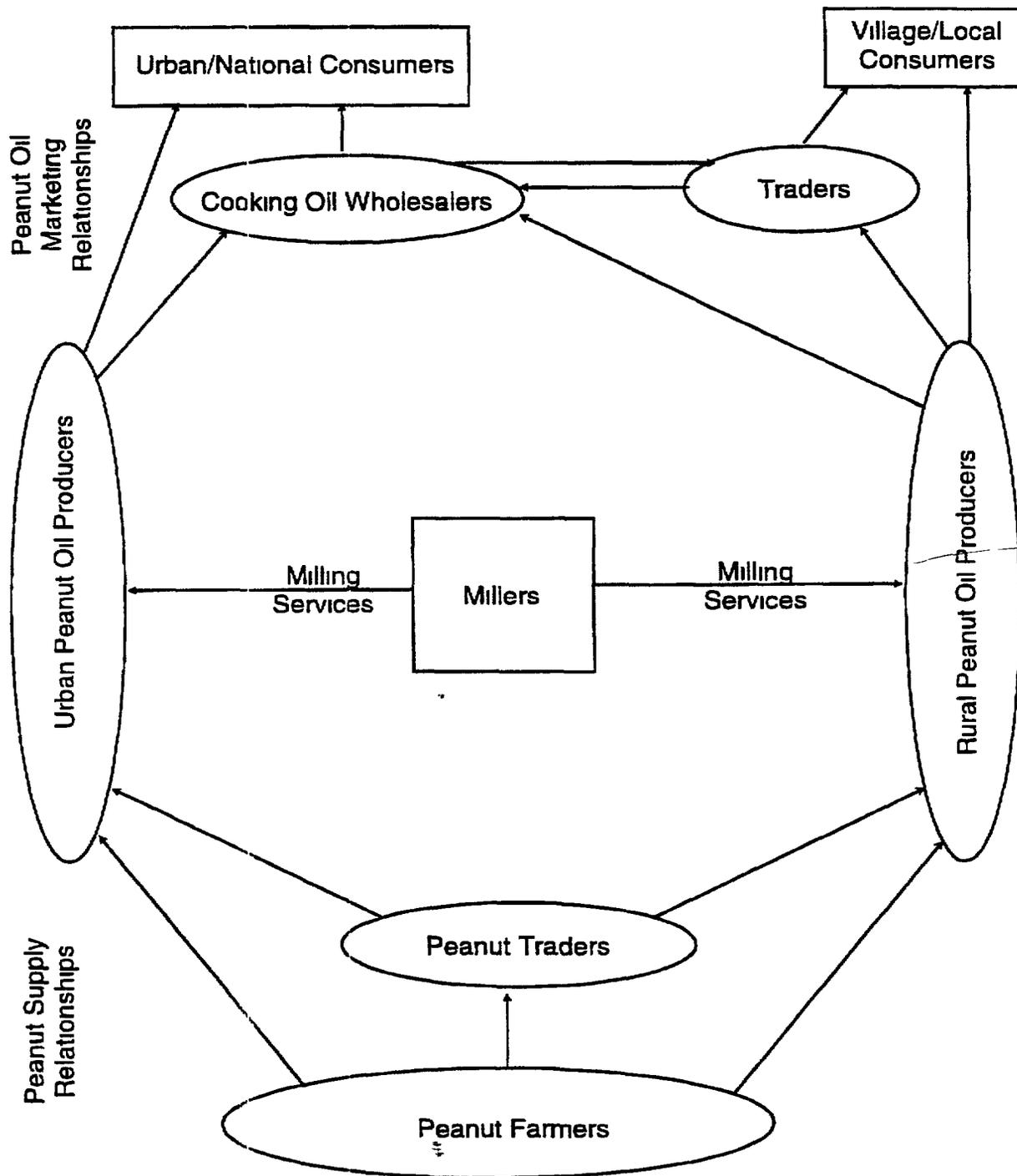
Millers Besides the women producers, millers are another category of key players in the peanut oil subsector. These are men (although there is one female miller in Maradi) who possess one or two diesel mills³⁵ which they put at the service of the women who bring them sacks of shelled peanuts for grinding for a fee of 250 FCFA per sack. According to the interviews, there are currently 32 millers in operation in Maradi. The commonly used mill, which most millers purchase in Nigeria, has a capacity of milling about 1 ton of unshelled peanuts per day and costs approximately one million FCFA. Millers rarely specialize in peanut milling, as they also mill other products such as millet and maize.

Cooking Oil Traders The last group of actors in the sub-sector are the cooking oil traders. In Maradi, this group is comprised of six wholesalers who trade both industrial oil and MSE oil in the Maradi market and in other major towns. At the time of the Team's interviews in August 1995, the Maradi traders were selling relatively small quantities of MSE oil to retailers in the Maradi market and significantly larger volumes to other traders in Niamey and Tahaoua.

peanut roasting. A schematic representation of the peanut oil subsector is given in Figure 4-1.

³⁵ Based on interviews, only a very small number of millers have more than one mill and none has more than 3 mills.

Figure 4
The Peanut Oil Subsector



**Table 4-2
Returns to Peanut Oil Processing**

Maradi Based Producer	Time Input (minutes)	Monetary Cost Input (FCFA)
INPUTS		
Peanut purchase (50Kg sack, unshelled)		7,500
fuelwood purchase		200
shelling	45	25
sorting	20	
grilling	40	
milling 1/ extraction	20 120	250
cake fabrication	120	
market tax (5 sacks/week, CFA 200)		40
TOTAL	6 hrs, 5 min	8,015
REVENUES		
Price per Litre		575
Oil revenues (@ 13 litres/sack)		7,475
Oil revenues (@ 11 litres/sack)		6,325
Cake revenues (10 "tai", @ CFA 155/tai)		1,550
MONETARY PROFIT/LOSS PER SACK OF PEANUTS		
@ 13 litres/sack		1,010
@ 11 litres/sack		-140
TOTAL MONTHLY NET INCOME ESTIMATES		
@5 sacks per week, 13 litre yield		20,200
@10 sacks per week, 13 litre yield		40,400
NET INCOME PER HOUR OF WORK (13 litre yield)		166

Source Interviews

1/ Milling time represents only operational time for processing 1 sack real time spent can be longer if there is a queue

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

(3) Returns to Peanut Oil Processing and Milling

Returns to peanut oil production are presented below in Table 4-2. The data presented in this table is representative of an average large-scale producer producing in Maradi at the time of the Team's mission.

[INSERT TABLE 4-2 RETURNS TO PEANUT OIL PROCESSING, TAB4-2 WK3]

A key factor in the profitability of peanut oil production is the yield obtained per sack of peanuts. All the women interviewed indicated that they could get 13 liters of oil out of a 50 kilogram sack of good quality peanuts, but that if the peanuts were of poor quality or too old, the yield would drop to 11 to 12 liters. Given the current market prices in force in Maradi, as shown in Table 4-2, production at this lower yield is not profitable. If women suspect that peanuts are of poor quality or that a sack is "light" they will negotiate the price down by as much as 1,000 francs in order to turn a profit.

Although the returns to peanut oil production are not spectacular on a per-sack basis (12 percent), the ability of the women in Maradi to rotate their stock is quite high. With two weekly markets and resident wholesalers who will buy oil on off-market days (albeit at a slight discount) the Maradi women have the opportunity to sell their stock several times a week. Thus, even though the women producers in Maradi were only obtaining about a 13 percent margin at the time of the Team's visit, because of the high rotation rate, they could obtain reasonable income levels. In contrast, women in rural areas have more difficulty rotating their stock and often must travel to sell their production.

The general opinion of all the women interviewed was that current margins were much lower than they were in 1994. The major reason they cited for the decline in margins was the often expressed opinion that, in the past year, the number of producers had gone up dramatically. Indeed, data collected by CLUSA showing one woman's margins from the village of Babban Tapki from August 1993 to January 1994 shows her monthly margins on peanut oil production fluctuating from 15 to 40 percent with an average margin of 25 percent.

Peanut milling also appears to offer a modest profit making potential, although the returns presented below are very sensitive to assumptions about the finance costs of the mill. Given the lack of information about the cost of capital among informal sector grain millers, it is difficult to present firm judgments about the returns to milling. As shown in Table 4-3, at a rate of 18 percent, milling offers a monthly income roughly equal to one of the larger peanut millers. With a cost of capital twice that, however, returns are negative.

Table 4-3
Returns to Peanut Milling

Monthly Revenue at Full capacity (400 sacks per month @ 250FCFA/sack)	100,000
Monthly Expenses	
Diesel fuel	30,000
Maintenance	4,167
Patente tax	2,667
Sub-Total Cash Expenses	36,834
Amortization of mill (10 year life, 1 million FCFA cost)	
@ 18% p a	17,752
@ 36% p a	29,990
Net Monthly Income	
@ 18% p a	45,414
@ 36% p a	(29,990)

(4) Constraints to Improved Peanut Processing Activities

Financial Constraints

Peanut oil producers uniformly mention the desire for more working capital. Although peanut they have little to offer in the way of collateral, the returns to peanut oil processing clearly indicate that producers have ability to pay back short-term revolving credit loans at the interest rates applied by such financial institutions as the BRK and CLUSA/SICR--and indeed even at much higher rates. Table 4-4 demonstrates the impact of a hypothetical monthly loan on the net income of a peanut oil producer drawn from the Maradi interviews. This example shows that, with a line of credit at 18 percent per year, a producer can take out a loan for one month to double their working capital in order to buy more peanuts and other inputs, payback the principal and interest at the end of the month, and still significantly increase her net income. Should she wish to repeat the transaction in subsequent months this type of loan could easily be converted into a line of credit to permit a permanent expansion of the producer's working capital. At a yearly rate of 18 percent, the interest cost does not even come close to canceling the extra added revenues to be had from increasing the scale of production from 20 to 40 sacks per month. In fact, the interest rate would have to climb to well over 100 percent per year for the loan to become unattractive to the borrower.

Table 4-4
Illustrative Working Capital Loan to Peanut Oil Producer

	20 sacks/month Without Loan	40 sacks/month With Loan	Net Impact of Loan
Example of Producer from Maradi			
Input Costs			
Self-financed inputs	160,300	160,300	
Principal pay-back		160,300	
Interest cost @ 18% p a , 1 month		2,404	
Total Costs	160,300	323,004	162,704
Revenues	180,500	361,000	180,500
Net Income	20,200	37,996	17,796

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

Despite this capacity to profitably borrow and payback loans, even at high interest rates, existing NGO credit programs seem to have not yet accessed peanut oil producing women in Maradi in any significant numbers. Sub-sector participants interviewed knew of only one case of a woman who had received a loan from a NGO credit program (in this case it was the BRK). Given this existing weak penetration, extending access to credit in the peanut oil sub-sector should be a high priority.

Besides the peanut producers, millers are also potentially attractive credit clients who currently operate outside the realm of current NGO credit schemes. In part this may be due to the financial characteristics of their operations which because of the significant cost of the mill (1 million CFA) and its long life, would be ideally financed with medium-term multi-year loans. Unfortunately, few NGOs are eager to make such loans. Despite these drawbacks, the presence of the mill itself as tangible collateral, if accompanied by a substantial required down payment should offer enough potential security to attract financing from potential lenders at least for millers with a demonstrated experience. Lowering capital costs and facilitating millers' access to financial services has at least the potential to leverage the performance of the entire subsector by encouraging greater investment in mills and better up-keep of old mills.³⁶

Technological Constraints

The technology used in traditional peanut oil extraction is quite simple and effective. The quality of the final product is generally recognized as being superior to industrial refined oils. There is little need therefore for technologies to increase oil extraction rates or improving product quality. However, the extremely time consuming and labor intensive nature of the peanut oil extraction process does create a need for labor saving technology. None of the women interviewed had the capacity to process more than 10 sacks a week--mainly because they could not mobilize enough labor among their female relatives to handle any volumes greater than this.

The ILO/EDF *Projet de Formation Modulaire pour l'Artisanat Rural (PROFORMAR)* has developed a low-cost mechanical peanut oil press that may be a useful tool for increasing output per unit of labor. The women's peanut oil Cooperative in Dan Issa has been using the press with reportedly favorable results. According to the Cooperative manager, the press reduces the time required to extract oil from a sack equivalent of peanut paste from 2 hours to 20 minutes while also increasing the oil yield by about 9 percent. The prototype has not been tested widely so any judgments about the final utility of this press would be premature, but should these figures prove to be correct it does appear to have the potential to remove labor bottlenecks in what is the most labor-intensive part of oil processing. The exact cost of the press is not certain, it is still at the prototype stage, but according to the Dan Issa cooperative manager, it should be priced under 50,000 CFA. At this price it would likely be a popular innovation among the women engaged in peanut oil processing.

To facilitate greater use of new technologies however, the question of access to these technologies needs to be more coherently linked to systems for financing them. Inexpensive packages such as the Dan Issa peanut press are well within the range of most successful women peanut producers. These women will not hesitate to buy technology if it yields positive returns. With increased credit availability, such packages could be easily provided through the private sector. More expensive pieces of technology, such as peanut mills, are probably

³⁶ During interviews some women in Maradi indicated that particularly during the harvest season they could lose significant amounts of production time in queues at the neighborhood peanut mills--indicating that there may be peak load problems that could be resolved with more investments in mills. Similarly in Dan Issa women complained about the poor condition of the village mill to which they attributed their generally low oil extraction rates. The team was unable to ascertain whether or not this is a widespread problem.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

beyond the reach of most producers-- who probably do not have the technical and management skills necessary to run commercial milling operations anyway. However, with improved medium term credit availability traders and other business people could enter this market much more easily.

Management Constraints

Although the women engaged in peanut oil processing have, in general, had little formal education, the women interviewed in Maradi had no difficulty discussing different components of their cost structures and know well what their production costs are. This contrasts starkly with the often expressed opinion that producers in the MSE sector "do not know" when they are selling at a loss. They also were quite knowledgeable about different supply and marketing options available to them and, in general, seemed to be quite competent managers. In contrast the women interviewed in Dan Issa, who did not have a long experience of processing peanut oil, did not seem to have the same grasp either of their costs or of marketing strategies. A useful distinction may be made at least based on this narrow sample between experienced and "start-up" MSE peanut oil producers. Clearly the Dan Issa women needed the training they had received from CARE, while there is little need for such training among the more experienced women of Maradi.

However with the start-up of SICONIGER and the threats it poses, it is not clear that the women in Maradi possess the management skills necessary to respond effectively. In particular, peanut oil producers and traders will need assistance in competing for new markets and in exploring promising avenues for capitalizing on MSE produced oil's reputation for quality in order to protect their market share from erosion by SICONIGER. Currently, for instance there is little thought to product differentiation among MSE producers as the product of any number of different producers is mixed and sold in empty Dinor drums. As real volumes of SICONIGER oil come on the market some producers may find it worthwhile to try differentiated marketing strategies--such as working with traders to develop marked brands or new distribution strategies. However to react in this manner both traders and the producers will need to be provided with some initial strategic and practical guidance.

b Skins and Hides

(1) Overview of Sub-sector

The skins and hides are another strategic sub-sector for Nigerien MSEs. This sub-sector is particularly important since it is a major area of export activity and could provide a vehicle for encouraging greater MSE penetration of foreign markets. Unfortunately, the sector has been in decline since the late 1980s, as exports of Nigerien hides to the most attractive markets have been falling and observers agree that there has been a general decline in hide quality.

Three major markets exist for Nigerien skins and hides: the European, Nigerian, and national market. Highest quality skins have traditionally gone to the European market. Although as late as the early 1980s, Niger exported significant amount of skins to Europe, studies of the sub-sector universally report a fall-off in exports to Europe, particularly since the 1989 privatization and subsequent demise of both the hide marketing/processing parastatal (the SNCP) and the parastatal tannery (SONITAN).

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

Three factors seem to explain the decline in exports to the European market. One is the decline in quality of hides which has been attributed to the disintegration of the mechanisms for collection, quality control and industrial treatment of raw hides since the liquidation of the SNCP. Without the marketing channels and treatment provided by the SNCP, few Nigerien hides meet the strict quality standards of the European market. The second factor is simply the lack of available financial resources to assemble enough hides to make shipping to Europe an attractive alternative. The last, and possibly most important reason for the decline in hide exports to Europe is that with the liquidation of SONITAN has left Niger without an industrial tannery capable of producing the partially tanned (wet-blue) hides that European buyers prefer to buy.

With the decline in exports to Europe, much of the slack in the market for skins and hides has been taken up by exports to Nigeria. In fact, Nigerian tanneries and buyers appear to have flooded the Nigerien market since the demise of the SNCP and SONITAN and now purchase most of the skins and hides produced in Niger. Most of the hides exported to Nigeria are tanned in one of the industrial tanneries in Kano or Sokoto, of which a significant portion is then exported to Europe. In this way, the value added from tanning which used to be captured by SONITAN and exported directly to Europe, has now migrated across the border to Nigeria.

The last market for Nigerien skins and hides is the national market, which is relatively small. A 1990 study by Abt Associates estimates that only about 25 percent of Niger's skins and hide production is for domestic consumption. Most of the domestic market for hides is from MSE tanners who produce leather of varying quality for leather craftsmen that make sandals, bags and saddles. Most of these finished goods are for Nigerien consumption, although a small fraction is exported or sold in the tourist market.

(2) Sub-Sector Participants

The skins and hides sub-sector consists of a number of complicated steps with a variety of participants. The section below briefly describes the roles of various actors in the marketing chain.

Butchers/Slaughterhouses There are two basic sources of raw skins in Niger. One is the skins that are by-products of supervised slaughter of livestock in one of the 4 refrigerated slaughterhouses in Niger (Niamey, Zinder, Maradi and Tahaoua) or from one of the official many supervised village slaughter slabs. The other major source of hides is from the unsupervised slaughter of livestock which occurs just about anywhere. In the past, slaughter at the supervised sites was overseen by SNCP representatives who collected skins and threw out damage or inferior hides. Although livestock technicians still supervise these sites, ensuring hide quality is not their primary task. The butchers who buy the animals are responsible for the actual flaying of the skin and sell the skins to collectors or sub-collectors working for private export traders.

Sub-Collectors and Collectors

(2) Fruit Production and Processing

Agents and Collectors are intermediaries who generally work for skins and hides traders. After receiving advances from traders they purchase and assemble hides from butchers. Agents generally circulate among the smaller butchers and the non-supervised slaughterhouses. For the most part they are engaged by larger collectors to whom they deliver their hides. Collectors, especially the larger ones, generally have regular client butchers to whom they may give advances for the purchase of animals. In the larger supervised slaughterhouses, there are usually several collectors, each linked to a different trader who purchases hides after slaughter. Besides the simple assembly function, collectors perform the key tasks of providing initial quality

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

control (often checking to see that butchers have not rubbed sand or sugar into hides to increase their weight and price) and in drying or treating the hides with chemical preservatives. Collectors work for both Nigerien and Nigerian wholesale traders and, as reported in the GEMINI study on Rural Financial Institutions, some also specialize in facilitating cross-border shipment of hides to Nigeria. Collectors in Maradi also report that Nigerian collectors themselves have established a presence in the Maradi slaughterhouses and often outbid Nigerien collectors.

Wholesale Traders and Exporters Two types of wholesale traders are active buyers in the Nigerien skins and hides market. The first of these are large Nigerien wholesalers who ship large quantities of hides to the tanneries in Kano. The second type is composed of wholesalers who arrange their own shipments to European markets.

(3) Major Constraints

Financial constraints

Virtually all studies on the skins and hides sub-sector mention the problem of a lack of finance in the sub-sector. The larger traders and collectors generally agree that they could obtain unmarketed skins if they had access to more working capital. Indeed the shortage of working capital appears to be the single most critical constraint to an expansion of skins and hides production.

The decline of exports to Europe and their replacement by exports to Nigeria is, to a certain extent, a financial phenomenon. The significant flow of skins to the Nigerian tanneries reflects their ability to supply large amounts of working capital which flows to their own collectors in Nigerien markets, to Nigerien wholesalers and then all the way up the marketing chain. Since the demise of SONITAN, which provided financing for the purchase of skins and then exported them to Europe, there is no longer any comparable source of financing located in Niger to fund the purchase of raw skins for export to Europe. The few Nigeriens active in the export trade to Europe have ongoing relationships with clients from whom they receive letters of credit or loans. This system, which is based on personal market contacts, is not able, however, to produce anything like the same volume of working capital injection as was provided by SONITAN during its heyday. Furthermore, with all the payments delays and financial charges involved in transferring funds between Europe (particularly countries other than France) and Niger, it is not able to match the speed and efficiency of funds transfer in the informal sector between Nigeria and Niger.

Another important factor which limits the efficiency with which working capital is used in the skins and hides sub-sector is the slow rotation of working capital imposed by the weekly market cycle. Because agents and collectors circulate among specific markets on specific days, it usually takes them a complete week to make a full cycle and exchange their hides collected for a new supply of funds to make the next week's purchases.

Quality control for hides

Traders and collectors also decry the demise of the SCP's role in supervising butchers during slaughter in order to ensure good skin quality. This service was financed through a direct tax on hides that went to the SCP inspector. As this system is no longer in place, there is no authority that can prevent butchers from adding impurities to hides to increase their weight or that can throw out damaged hides. Not surprisingly, quality has suffered greatly. One trader interviewed by the GEMINI Rural Financial Institutions Team estimated that ten

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

percent of the hides he receives are of unacceptable quality. Similarly, Nigerian tanneries report that they are paying less for Nigerian hides because of increasing quality problems. Exporters to Europe are sometimes required by their clients to pay for inspection of shipments by the Societe Generale de Surveillance at the port of embarkation to control for quality, which imposes higher costs that are often split between the exporter and the client.

The quality control problem was cited as a major difficulty during the 1992 Maradi seminar on skins and hides and there have been tentatives by sub-sector participants to agree on a system for enforcing quality standards but as yet implementation is being blocked by the lack of agreement among the different actors (traders, collectors and butchers). Implementation of some sort of quality control system at slaughtering could be facilitated by the existence of an effective business association among skin and hides traders and collectors. Unfortunately no such group exists, as the cooperative for skins and hides is non-functional.³⁷

Enabling Environment Policy Constraints

Two main policy constraints affect the sub-sector. These are

Cumbersome official trade procedures. Although the export licenses which took up to six months to acquire are no longer required, skins and hides exporters are still required to register with authorities in the *Chambre de Commerce de l' Agriculture, de l'Industrie et de l'Artisanat du Niger (CCAIAN)* responsible for the *Guichet Unique* and asked to pay fees for statistical forms and to provide proof that they are current in their membership fees for the CCAIAN, the CNUT and have paid the *patente* as an export or import/export firm. Exporters must also present proof of having fulfilled all these requirements to be able to access payments through the banking system. While exporters to Nigeria can easily bypass these regulations, those seeking to export to Europe cannot (at least if they plan to use the Nigerian banking system). Therefore, this system continues to discourage exports to Europe and is a particularly important barrier to entry for smaller exporters.

Inflexible labor regulations and an invasive regulatory climate. It is interesting to note that when asked during an interview with Team members about the feasibility of an investment in an industrial tannery in Niger, officials from a Nigerian tannery expressed the opinion that it probably would be fundamentally sound, but that they would not invest given the current regulatory regime in Niger. What they feared most was that once they had invested, they would be forced to request authorizations and engage in costly negotiations for a whole host of items that they regarded as being normal business decisions, such as putting in a reserve electrical generator or a water tank. Indeed, this opinion was echoed by one of the larger Nigerian exporters of hides to Europe who was interviewed by the GEMINI Rural Financial Institutions Team. This trader recounted that he used to employ a large staff of agents and sorters, but that when the downturn in exports in the late 1980s forced him to let go of much of his staff, he became embroiled in arbitration with the labor authorities that ended up costing him significant amounts of time and money. Since then he keeps only a minimal staff and makes the fullest possible use of family members as workers.

c Fruit Juices and Processed Fruit Products

³⁷ In contrast the butchers cooperative seems to be an effective organization as reported in the 1992 Deloitte and Touche study of the sub-sector. One wonders whether the lack of progress on the institution of a system for quality control may not reflect the superior organization of the butchers vis-a vis the hide traders and collectors.

5 Enterprise Development Constraints and Donor Activities

a Introduction

As the above examples show a variety of factors contribute to a poor climate for private sector development in Niger. However, the type of constraints which are really binding on individual enterprises tend to vary by the size of the enterprises and by the degree to which they operate outside of the scope of government regulators (informal sector) or comply with official business regulations (formal sector). Accordingly, the analysis of constraints to enterprise development presented here is divided into two major parts: the first of which discusses the primary constraints to Micro- and Small- Enterprises (MSEs), while the second deals with constraints facing Small- and Medium- Enterprises (SMEs).

The definition of MSEs adopted here includes all informal sector enterprises operating without formal bookkeeping that are not subject to official business regulations governing wages, labor policies and that for the most part do not contribute to the VAT or pay official business taxes such as the tax on corporate profits.³⁸ This category includes the vast majority of MSE manufacturers and repair services, on and off-farm rural enterprises, tailors, food processors and sellers, traders (both small and large-scale) and equipment rental enterprises.

SMEs, on the other hand, include businesses that are subject to the formal sector regulatory environment. Of particular relevance to the rural sector are such enterprises as Sahelio and SICONIGER, that are engaged in industrial transformation of agricultural products. In general, these enterprises have more visible fixed assets, keep regular accounts, and appear in the official records (the *registre de commerce*). These enterprises may actually be smaller in terms of gross revenues than some of the larger MSEs, but because of their clear visibility, they are unable to operate in the informal sector.

The boundaries between these categories are not always clear cut. Some MSEs, which operate outside of most aspects of business regulation, may well be registered and possess all the paperwork required of formal sector firms, particularly if they aim to do business with donor projects and/or NGOs which require such assurances. Nevertheless, the distinction between SMEs and MSEs is important, since the environment and constraints facing SMEs, who are constrained by formal regulations, are quite different than for MSEs that are not subject to the same invasive regulatory environment.

This fact that MSEs and SMEs function in vastly different regulatory environments has important consequences for USAID programs under Strategic Objective 2 (SO2). Specifically, for MSEs, constraints related to the policy environment facing private enterprises are less of a concern than are firm-level operational constraints. Consequently, USAID program responses under SO2 that are directed at MSEs, need to focus squarely on firm-level constraints. For SMEs, however, the most binding constraints are to be found at the policy-level. Therefore a focus which places greater emphasis on policy reform is more appropriate for SMEs.

³⁸ This is not meant to imply that MSEs/informal sector enterprises do not pay taxes, since many MSEs do pay the *patente* tax, as well as various market taxes.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

The whole array of enterprise development constraints facing both MSEs and SMEs, as well as the activities of donors besides USAID to address them, are presented in Figure 5-1. The first two columns are discussed in this section. Recommendations and illustrative activities are developed in Section D-7.

Figure 5-1
Enterprise Development Constraints and Recommendations

Constraints	Other Donor Activities To Address Constraints	Recommendations For USAID	Illustrative Activities
A. Micro and Small Enterprise Level (informal sector)			
1. Lack of Financing for MSE Activities Short-term working capital Medium-term loans	Multiple donor/NGO credit programs with weak coverage of MSEs	Develop new models of finance capable of reaching wide range of MSE (See Section E) Increase NGO ability to offer medium term loans Monitor MSE activity through lenders/intermediaries	(See Section E)
2. Access to Improved Technology lack of low-cost appropriate labor enhancing technology lack of credit for technology acquisition	ILO/EDF PROFORMAR and NIGETECH projects offering technology development Little donor/NGO medium term financing for technology acquisition	Leave appropriate technology development to ILO/EDF Increase NGO ability to offer medium term loans	
3. Lack of Technically Skilled Labor	Multiple donor technical training projects with poor records of sustainability	Develop new models of sustainable technical training which utilize existing MSE competences	Evaluate CARE/Maradi EMFP experience for possible extension
4. Lack of Management/Business Skills Unfamiliarity of start-up MSEs with fundamentals of business management Lack of understanding among experienced MSE entrepreneurs of more advanced business management principles (particularly marketing financial management and export market development)	Abundant supply of NGO business training initiatives Scattering of donor projects offering advanced training or marketing services to small numbers of MSEs	Continue to support association of NGO business training with credit to start up MSE borrowers Encourage the development of fee-charging firms/NGOs offering management consulting and marketing services to MSEs	
5. Lack of Donor Coordination Conflicts between various donor supported credit projects Disincentives for MSEs resulting from highly-subsidized and ill-targeted donor MSE assistance efforts		Participate fully in GON Programme Cadre should this initiative show promise of becoming a forum for effective donor coordination	Consider allocation of Technical Assistance to MSE Coordination Unit planned under Programme Cadre Use Private Sector Coordination Committee under Programme Cadre to encourage other donors to (i) include sustainability in objectives for their credit activities (ii) sell technology to MSEs rather than giving it away and (iii) to target MSE assistance towards individuals and existing MSEs as well as collective groups and start-up MSE entrepreneurs
B. Small-Medium Enterprise Level (formal sector)			
1. Lack of medium-term financing	Other donors planning additional mechanisms targeting SME financial needs within Programme Cadre	Encourage other donors to focus credit on businesses with strong links to rural sector (mainly agro-processing firms)	
2. Lack of managerial talent	Other donors committed to providing SME focussed management training and services under Programme Cadre	Encourage other donors to focus SME assistance on businesses with strong links to rural sector (mainly agro-processing firms)	
3. Policy environment Labor policies Business Regulation Unsure land tenure International trade procedures	World Bank taking lead on defining policy reform agenda	Use Non-Project Assistance (NPA) to encourage reforms with a particular impact on SME business climate Make greater effort to disseminate economic policy research and encourage its utilization within the civil society	Attach NPA to reforms in labor regulations business licenses for foreign firms the "Guichet Unique" for international trade Allocate an additional expatriate technical assistant to PASPE to provide follow-up for completed studies produce syntheses for wider consumption and to work with potential stakeholders in the civil society

BEST AVAILABLE COPY

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

b Constraints Facing MSEs

USAID's approach to SO2 places heavy emphasis on the promotion of micro-enterprises. This focus on MSEs and the informal sector is appropriate for several reasons

Value Added from MSE Peanut Oil Processing

Input Costs (CFA/liter)

Peanuts	577
fuel wood	15
Total Inputs	592

Revenues (CFA/liter)

peanut oil	575
peanut cakes	119
Total Revenues	694

Value Added per liter 102

Total 1994 estimated MSE production (tons) 7,250

Total 1994 estimated production (liters @ 922 grams/liter) 7,863 340

Total 1994 estimated MSE value added (million FCFA) 802

Total 1992 GDP in Modern Agro-processing sector (million CFA) 1/ 8,700

MSE peanut oil value added as percentage of Agro-processing GDP 9.2%

1/ From "programme cadre du Secteur Prive" Report June 23, 1995

MSEs have the potential to make significant contributions to economic growth As shown in Section D-1, estimates of the informal sector share of GDP reach as high as 74 percent. Although no firm figures are available which would permit a breakdown of non-primary sector value added contributed by informal/MSE sector enterprises vis-a-vis formal/SME sector enterprises, some appreciation of the overall importance of MSEs can be inferred from the example developed in this study of the peanut oil sub-sector (shown in the box above) which show that, in this one sub-sector alone, MSE value added amounts to approximately 9.2 percent of the total formal sector agro-processing value added. It is important to note that this estimate concerns only one MSE sub-sector. Although no other recent estimates of value added in other sub-sectors was obtained during the Team's mission, data from 1987 Direction de la Statistique figures reported in the Niger case study of the recent GEMINI Report on Rural Financial Institutions show value added in several other MSE subsectors that are well

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

above the 802 million FCFA value added figure for the peanut oil sub-sector presented in the box below. These earlier figures show value added for MSE butcheries at 5.9 billion FCFA, for textiles at 5.8 billion FCFA, for carpentry at 2.3 billion FCFA and for restaurants at an impressive 6.9 billion FCFA. Given the scale of activities in these other MSE sectors, it is likely that the contribution of MSEs to value added in both the service and manufacturing sectors exceeds the contribution of formal sector service enterprises.

Facilitating MSE growth will help reduce poverty in rural areas. IFPRI survey results from 1991/92 of participants in public works programs designed to offer income earning opportunities to the rural poor show that, among the most active participants, MSE activities in the form of trade, hostelry, craft work and other small business activities provided 15.3 percent of their total income. Among more occasional participants, the share of MSE-derived income was an even higher 20 percent.³⁹ Figures such as these show that MSEs play an important role in providing income to the rural poor. Furthermore, although rural incomes are dominated by the sale of agricultural products, MSE activities provide an important source of supplemental income, often coming during the off-season when households are most cash-poor. Increasing MSE activity levels in rural areas thus has an important role to play in reducing rural poverty.

The relative importance of women as both entrepreneurs and workers is much higher in the MSE sector than among SMEs. Women play a very major role in Nigerian MSEs. According to 1988 census figures from the Direction de la Statistique, women owned 29 percent of the 130,000 microenterprises surveyed. As shown in the peanut oil case study, certain areas of MSE activity are the exclusive domain of women. Besides peanut oil, women are particularly dominant in such agro-processing activities as shea butter production, onion and tomato drying, dairy product processing, cotton spinning, straw mat weaving, and beverage processing. They also run most restaurants in Niger and are active in artisanal pottery and furniture making. By contrast, female employment in formal sector SMEs is much less frequent.

In order to harness the growth and equity enhancing potential of the MSE sector, however, the donors and the GON need to address several important constraints inhibiting the growth of MSEs. These are detailed below.

(1) Financial Constraints

The lack of financing is a very real constraint for most MSEs. Although virtually all MSEs have schemes for overcoming the lack of credit, usually through systems of delayed payments to suppliers or advances from customers, these mechanisms impose hidden costs by restricting the range of market options open to MSE entrepreneurs. Freeing MSEs to expand the range of their commercial possibilities by separating supply and marketing decisions from financing considerations will help them improve their management efficiency and overall profitability while also permitting an expansion of the scale of their activities. Furthermore, the ability to offer financing to their own customers can also be a powerful marketing tool in a credit constrained environment.

In general, the need for financing among MSEs can be separated into two distinct types:

³⁹ Cited in World Bank Food Security Strategy, June 29, 1994.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

- **the need for short-term working capital financing (less than a year)** which would allow MSEs to increase the scale of their current activities, and
- **the need for medium-term financing (one to three years)** for costlier pieces of equipment and new technology to allow MSEs to develop new areas of activity

Short-term working capital credit is a critical need of many MSEs. Besides the peanut oil processing example given above, the returns to many areas of MSE activity show returns that could support credit at rates of interest in excess of the rates charged by most NGO and donor credit programs. Activities such as the rental of agricultural equipment (see box below), food preparation and selling, metalworking, carpentry, tailoring, agricultural implement manufacturing, jewelry fabrication, leather working, automobile repair and weaving all exhibit various degrees of profitability that could justify higher use of credit. Although levels of profitability vary between these activities, and all may not be as remunerative as the peanut oil example, the spurt in informal sector/MSE activity over the past few years confirms the basic viability of many of these enterprises. This general picture is further supported by the high loan repayment rates obtained by the CLUSA/SICR for MSE activities such as peanut oil processing, livestock fattening and petty trade.

Yet, despite the evidence of profitable MSE projects and a scattered experience of high repayment rates from several NGO projects and the proliferation of numerous rural and urban micro-credit projects,⁴⁰ the reach of donor and NGO credit projects is very limited. The GEMINI study on rural financial institutions found that very few individuals or MSE firms engaged in agribusiness activities had ever benefited from NGO or donor-sponsored credit projects. Similarly, during the field work for this report, the peanut oil producers in Maradi only knew of one woman who had benefited from a NGO credit program. This reflects the very real difficulties of setting up efficient delivery mechanisms to analyze MSE risk and handle credit transactions as well as the insufficient supply of loanable funds for the MSE sector relative to potential demand. Thus, despite the proliferation of donor-supported credit programs targeting MSE activity, there is still a significant need for increased access to credit among MSEs. Progress is being made, but it is still insufficient compared to the needs of Nigerian MSEs.

⁴⁰ In addition to the USAID WOCCU CARE/BRK and CLUSA/SICR Projects, other major donor initiatives offering short-term micro-enterprise credit include the ILO/EDF PROFORMAR project, the soon-to-be operational Fonds Decentralises project from the Caisse Francaise de Developpement, and numerous rural development projects of other donors which include credit components for village enterprise initiatives. Among the major initiatives in this area include the micro-realizations projects of SNV and GTZ, the joint German/French Gestion de Terroirs Project, and FAO rural development projects in Keita and Niamey. In addition to these major donor programs, many Nigerian and foreign NGOs offer limited credit facilities that are supported through donor grants.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

Medium-term financing for the MSE sector is virtually non-existent under current donor projects, yet the lack of medium-term financing is also an important obstacle. Only the ILO/EDF PROFORMAR project currently disburses loans on a multi-year basis to MSEs,⁴¹ although the BRK also plans to offer multi-year financing. The need for longer term financing is a critical factor preventing the development of MSEs utilizing costlier technologies which must be amortized over several years. As shown in the above boxed section, the development of technology-driven rural enterprises presents a particularly promising potential avenue for MSE

Rural Equipment Rental Enterprises Development

In recent years a number of new rural enterprises have emerged which specialize in the rental of pieces of equipment that are too costly or require larger capacities than individual households or even villages can amass. The PROFORMAR Project has recently financed three motorized grain mills ("batteuses motorisees") in the Madoua region which individual entrepreneurs have mounted on donkeys to service various rural locations. At 1.8 Million CFA per mill (\$3,600), these represent expensive investment items that are currently being repaid on a three year schedule. In addition to these three project-supported initiatives, MSE entrepreneurs in Niamey have also reportedly begun to purchase the same mobile mills, without any project credit, to reach areas around the capital. Besides these new mills, well established rural enterprises exist to rent equipment and/or provide services such as welding for repair of farm implements and cooking utensils, carts rental to haul crops, fertilizer and water, and animal traction and motorized tractor plowing.

Without access to financing for equipment, the development of rental enterprises is limited by the capacity of individual entrepreneurs to access family funds or self-finance their investments, as even informal sector sources of medium-term credit are quite rare. Increasing the access of MSE entrepreneurs access to medium-term financing has the potential to greatly facilitate the development of these key service-providing SMEs in rural areas.

development. However, most of these require investments in expensive pieces of equipment which few can afford and for which little financing is available through donor/NGO projects. The reluctance of NGOs and donor projects to offer longer term financing is understandable, since few have the capacity to effectively assess and manage the added risks of longer term MSE loans. Thus developing sustainable mechanisms for financing medium-term equipment loans and strengthening the capacity of NGOs to assess longer-term risks needs to be a high priority for donor micro-credit programs.

⁴¹ PROFORMAR's geographic reach is also limited to the Niamey, Tillaberi, Tahoua and Madoua regions. Important areas such as Zinder and Agadez are not covered.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

(2) Technological Constraints

The potential gains from utilizing improved technology are clear. In particular, greater access to technology has the potential to spur MSE development in two important ways:

It can contribute to higher labor productivity, particularly in the processing of agricultural products. Most MSE agricultural processing activities utilize extremely low levels of technology and rely primarily on intensive labor inputs. Leveraging these labor inputs through marginal improvements in processing technology to achieve higher productivity can help raise the returns to labor in the MSE sector. Several examples of potentially promising technology packages were encountered during the Team's mission. The mobile mills described above appear to offer useful labor saving services to rural women. In addition, the recent introduction of a new prototype mechanical peanut oil press developed under the PROFORMAR Project that is used by the women's cooperative in Dan-Issa may have the potential to yield superior oil yields and reduce the time needed for the oil extraction process.⁴² Efficiency gains from improving on traditional agro-processing technologies will also have a particularly large impact on the earning power of women who constitute the core of the agro-processing MSE entrepreneurs and workers. Although an inventory and analysis of the potential of specific labor-enhancing technological packages was beyond the scope of work of this assignment, such a study is needed to identify technological bottlenecks and determine credit needs among potential technology purchasers.

It can alleviate specific bottlenecks in strategic areas of MSE activity. Finding solutions to particular technological obstacles inhibiting new avenues of MSE activity can also help spur rapid MSE growth. Current technological "bottlenecks" include problems with solar dryers which are preventing the widespread diffusion of improved food drying techniques and problems in the preparation of rock-phosphate based fertilizers using locally available deposits. The potential for the use of improved solar drying techniques in Niger is enormous. Experiments with the production of dried meat ("Kilichi") using solar dryers have yielded promising results as spoilage is reduced and drying conditions can be more closely monitored to ensure rigorous hygienic standards and quality control at levels required by European and North American markets. However, the possibility for widespread diffusion of these techniques are poor at best, since the solar dryers used, those developed by the Office National d'Energie Solaire (ONERSOL), were produced at too high a cost and are too fragile (because of their use of large glass plates) to be attractive to most urban or rural entrepreneurs. Introducing improved drying technology could not only help spur the exports of kilichi, but would also help Nigerien MSEs develop dried fruit and vegetable exports. As for rock phosphates, prior efforts at developing local deposits near Tahoua have floundered as farmers have found that, because of its light powdery nature, local phosphate fertilizer blows away too easily from the fields after application. Introducing techniques to granulate the phosphate, by mixing it with agglomerating substances such as animal fat or by-products from livestock slaughtering could solve this problem and encourage MSE investment in phosphate mining and distribution.

However, despite the benefits of greater use of technology, use of it among Nigerien MSEs is very sparing. Explanations for the low levels of technology rest on two major factors: (1) its availability, suitability and price.

⁴² Potential problems with the press include a reported lower quality of peanut cakes that reduces its suitability for human consumption. Although the women interviewed from the Dan Issa peanut oil cooperative reported no difference in selling prices between peanut cakes produced with traditional methods and those produced with the mechanical press.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

and (2) the presence of appropriate financing mechanisms Constraints on each of these levels are discussed below

It is important not to overstate problems related to the availability of appropriate technology in Niger, particularly for the processing of agricultural products In fact what is striking in much of the agro-processing sector is how well certain common pieces of equipment work and how much people are prepared to invest in them when the basic viability of the investment is clear In the peanut oil sub-sector, for instance, there has been a rapid growth in the use of peanut grinding mills used to prepare peanuts for final oil extraction In Maradi according to interviews the number of mills operating in the city increased from 24 in 1994 to 32 in 1995, most of which appear to have been purchased by individuals MSEs from suppliers in Nigeria The diesel mills in use are relatively low-technology versatile pieces of equipment that can grind different types of grains and run on fuels of variable quality with good results More specialized mills with stringent fuel quality requirements would prove too costly to operate and likely be non-operational for greater periods of time Although this is but one example it is transferable to many other sectors of activity where there is still the potential to increase rural enterprise activity by increasing the access of rural people to such common technologies as animal traction plows and tractors animal drawn carts, welding equipment and sewing machines

Encouraging the adoption of these technologies does not require the development or adaption of new technologies in the case of such common pieces of equipment as tractors and animal drawn carts the technology is well known Rather the main obstacle to the increased dissemination of this technology is the lack of credit to facilitate MSE purchases As such, much of the supposed lack of "technology" in Niger is really a financial sector issue, not a question of technological engineering

In cases where there are specific technological bottlenecks, specific targeted technology development and adaption programs are required In Niger, at present the PROFORMAR project has had some success in developing low cost durable technologies by bringing in expatriate engineers and technicians to work side by side with Nigerian artisans to develop experimental prototypes for use by rural artisans This approach, where outside expertise is married to local know-how and materials is likely to yield better results than more isolated research and development programs At present the technology development efforts of PROFORMAR seem to be producing encouraging results ⁴³

(3) Technical Training

Many studies have identified the lack of technically trained skilled workers as an important constraint to the development of MSEs in Niger ⁴⁴ Unfortunately, existing sources of technical training are either too slow to respond to a need for rapid training modules, or of dubious relevance Particularly for the more technically demanding trades such as mechanical equipment and car repair, tailoring, electrical work and metalworking existing apprenticeship training methods require extremely long periods of service before any real skills are transferred to the apprentice An apprentice tailor may work 3 years for a master before touching a sewing machine Similarly long periods of service are required in car repair and metal working MSEs On the other hand, technical training dispensed by the public technical high school ("lycée technique") is overly theoretical and trains students to use equipment which they may never see in the private sector

⁴³ The biggest success of the PROFORMAR technology development efforts so far has been the development of a locally produced parabolic antenna which have sprung up all over Niamey since the first prototype was developed PROFORMAR Staff report that at last count there were over 40 different MSEs making and selling parabolic antennas (some albeit of dubious quality) in Niamey The PROFORMAR developed mechanical peanut press mentioned above also reviewed to above that is in use in Dan Issa also appears to offer the potential to increase returns to labor although it has received mixed reviews

⁴⁴ See for instance A Kabore et al p 48 and Ben Fadhl P 32

DRAFT. USAID/NIGER Economic Reform and Microenterprise Program

Donor projects and NGOs have made inroads in responding to these needs. Besides the previously cited PROFORMAR Project, donor sponsored initiatives currently offering technical training include a Lux Developpement project to support the Wadata Artisanal village (Niamey), the CARE supported Ecole Moderne de Formation Polytechnique in Maradi. GTZ sponsored projects targeting different categories of artisans⁴⁵ and the EDF funded NIGETECH project which has not yet commenced operations, but which is slated to function similarly to PROFORMAR, but with a greater emphasis on applied technology in urban areas.

Unfortunately, even with these efforts there is still a major lack of training initiatives which utilize the considerable competencies available among skilled MSE artisans. A major reason for this is the peculiar incentive structure created by the informal sector nature of most MSE activities. In this type of environment, businesses cannot add too many skilled workers engaged in productive work without attracting unwanted attention from authorities who will appear to ask whether the enterprise is current in its *patente* payments or whether its level should not be adjusted upward, whether it has paid its mandatory dues to the Chamber of Commerce, or whether it is in violation of existing labor and commercial codes. These constraints seriously lessen the incentives of MSE entrepreneurs to grow beyond a certain level of activity. Once they have reached this level they need only add skilled workers as replacements for normal attrition. Training more people at a faster rate only adds to the universe of potential competitors. Therefore traditional apprenticeship periods tend to be long and slow and combine unskilled labor contributions with a gradual acquisition of technical skills as the apprentice gains the trust of his patron. Although well suited to the needs of existing individual enterprises this training system is not capable of producing large numbers of skilled workers in a short amount of time to increase the general supply of technicians to fuel an increased rate of MSE start-up ventures.

(4) Management/Business Training

The need for basic management training seems to exist mainly among people who are not practicing micro-entrepreneurs but who are for the most part being organized and trained by NGOs to engage in start-up micro-enterprise activities. For this type of audience, the standard courses offered by most Nigerian NGOs, with their heavy emphasis on the calculation of break-even prices ("prix de revient") and cost calculations are quite appropriate since this neophyte public usually has little grasp of these concepts. To fill this need an array of NGOs have sprung up, many of which employ quite competent trainers and methods.

Beyond the need for business fundamentals there is little doubt that a small subset of the more dynamic MSEs could benefit from more advanced business training, primarily focusing on more strategic questions involving financial, marketing and production strategies. Another real need exists in the provision of export market development services crafts-oriented MSEs which have the potential to supply export markets. Few leather workers or woodworkers understand the steps involved or have the knowledge of foreign markets to developing a regular clientele of foreign buyers.

While there are many NGOs that can help with product cost calculations and basic accounting, there are fewer sources to which MSEs can turn for advice on these more complicated issues of business strategy. Similarly, while there are a handful of donor projects, such as the Lux Development Project at the Wadata Artisanal

⁴⁵ GTZ actually is currently supporting three projects that offer technical training: the Projet d'Appui à l'Artisanat which offers technical and literacy training to broad categories of artisans; the Formation d'Apprentis selon le Systeme Dual Project which trains automobile mechanics; and the Projet Micro-Realisation which offers technical training for small scale artisans.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

Village which help craftsmen with export marketing there are no functioning consulting firms or specialists in the export of arts and crafts who can help Nigerien craftsmen not participating in these projects to access foreign markets and identify foreign buyers This lack of advanced management training capacity and export development service providers reflects the basic shortage of skilled business managers in Niger Without a body of people to draw on who have these competencies, it is unlikely that these services will develop in the short-run even if there is a potential market among the more dynamic MSEs

(5) Donor Coordination

One of the most common refrains of studies looking at rural and private sector development in Niger is that there is a need for more donor coordination While all donor programs could benefit from increased coordination this is of particular importance to USAID because its three micro-enterprise finance projects have integrated concerns about sustainability into their operations to a greater degree than have the projects of most other donors The progress made to date by these projects towards achieving a degree of sustainability can however be easily undermined by other donor projects offering higher degree of credit subsidies USAID therefore has a particular interest in pursuing effective donor coordination on issues affecting MSEs

Besides the need for donor coordination on financial sector programs targeting MSEs there is also a need for greater coordination of non-financial micro-enterprise development efforts--particularly in the area of technology provision and the targeting of firm-level assistance In these areas too, there are cases of conflict between donor projects resulting from inconsistent targeting strategies and/or different approaches to sustainability In fact whereas much progress has been made in creating consensus among donors about the need for greater attention to sustainability in financial sector programs, the state of the dialogue about sustainability and micro-enterprise development is much less advanced

Unfortunately the majority of donor and NGO micro-enterprise development efforts result in unsustainable projects that often undermine the market shares of existing MSEs that do not benefit from donor subsidies Many NGO rural enterprise promotion projects for instance offer subsidies to groups that they have organized to aid start-up MSE ventures All too often the approach taken is to shower benefits in terms of training technology and finance down on a group of beneficiaries selected by the donor in the hopes this group will either organize a collective enterprise or that many of the individuals receiving the assistance will start their own MSEs An example of this type of approach based on the experience of CARE in the village of Dan Issa near Maradi is shown in the box below

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

A Poor Example of MSE Development The Women's Peanut Oil Cooperative in Dan Issa

Since 1993 CARE has been sponsoring the development of peanut oil extraction in the village of Dan Issa near Maradi. CARE has trained over 100 village women in peanut oil production, organized a Cooperative embracing 50 of the women receiving training, stationed a full-time cooperative administrator in the village, and supplied a free mechanical peanut oil press. In 1994, its first full year of operation, the women's cooperative made up of 50 CARE-trained women produced 13,600 liters of oil--roughly the same volume as one of the larger women producers in Maradi. At the time of the Team's visit to Dan Issa in August 1995, the Cooperative was not producing oil since the price of peanuts had risen too high relative to the price of oil for production to be profitable. The Dan Issa women anticipated resuming production with the next peanut harvest in November.

Despite the limited scale of the Dan Issa Cooperative's operations and its off-and-on production cycle, CARE has put in a proposal to the African Development Foundation to finance investments in equipment and storage facilities totaling over \$35,000, the scale of which dwarfs anything available to the non-subsidized peanut oil-producing women 38 kilometers distant in Maradi. If funded, this would give the Cooperative 2 peanut hullers, 2 mills, and 2 motorized presses in addition to a \$15,000 storage facility. By contrast, among the many peanut oil-producing women in Maradi, only one possessed a peanut mill (although there are private millers who will mill for a fee, as in Dan Issa) and there are no motorized presses operating at all. Nor do the women have access to any storage facilities.

Although the economics of the proposed investments in Dan Issa are highly questionable, since there is little evidence that the Cooperative is prepared to operate on the scale that would be necessary to yield positive rates of return on the planned investments, the importance of this illustration is not the specifics of this case, but what it shows about the underlying approach of many micro-enterprise development efforts in Niger, of which it is fairly typical. Specifically:

MSE development efforts are poorly targeted. All too often beneficiary groups for MSE development efforts are selected arbitrarily by NGOs and donors with superficial analysis of the underlying profitability of the proposed project or of how it will affect existing producers. In the Dan Issa case, although there is certainly value in training women who were not previously familiar with peanut oil production techniques, how to extract oil, it is hard to see why a relatively small cooperative should be favored with large-scale subsidized investments, beyond anything yet existing in the region, over other MSE operators who have more solid track records (and possibly more favorable underlying cost structures).

Technology is often provided as a gift which does not require socially efficient use by recipients for it to yield positive private returns. All too often key pieces of technology are given away to Cooperatives (although much more rarely to individuals) with little or no monetary contribution on the part of the recipients. This contributes to the inefficient use of the equipment since the beneficiary has no investment cost to recoup and cannot make a loss on it. It is significant that the Dan Issa cooperative was given the only mechanical peanut oil press in the Maradi area which was gathering cobwebs at the time of the Team's visit since the Cooperative had stopped producing until the next harvest. Even when the Cooperative was producing, however, the press was used far under its capacity since the Cooperative members could not produce at large enough volumes to fully utilize it and would not rent it to non-members for fear that it would be damaged.^{a/}

There is a clear preference for assisting collectives, rather than individual MSE entrepreneurs. Although organizing individuals in rural areas to capture economies of scale in input purchasing and crop marketing make good sense in the Nigerian context, there is little reason to think that collectives (whether cooperatives, village associations, or women's groups) are efficient managers of MSE operations. Yet, many NGO MSE initiatives exhibit clear preferences to working with collective organizations vis a vis individual MSE operators. In Dan Issa, for instance, although there was already a mill operated as a village MSE and used by most women in the village, the CARE proposal to the African Development Foundation calls for 2 mills to be given to the Cooperative. When asked why there was a need for more mills, the women cited complaints about the quality of the available mill which was reducing their oil yields. Yet, rather than working with the miller to see whether obtaining credit to purchase a new mill might be a low-cost and sustainable solution, CARE sought funds to grant outright to the Cooperative two mills that would have to be operated on a large-scale commercial basis by an organization that has shown an unwillingness to explore the commercial potential of a much lower capacity peanut press. Significantly, the only existing source of management competence for this type of enterprise in the village may be driven out of business if the proposal is funded.

^{a/} This concern on the part of the Dan Issa women is understandable. Since the press was provided as a one-time only gift from an NGO rather than through private sector channels with the help of an NGO credit program, no sustainable system for supplying replacements or replacement parts has been created.

The fundamental problem with this approach is that it creates distortions in the competitive environment which often contribute to the reallocation of existing MSE activity--instead of spurring real growth in the MSE sector. Besides the problem of the peanut mill alluded to above, much of the village-level cereals marketing activities

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

financed by some donors with grants and subsidized loans encourage farmers to take over marketing functions (and assume greater risks-- a point which is often neglected) previously fulfilled by private traders without any donor support. Although such interventions may contribute to enhanced market efficiency and higher output if they permit farmers to bypass market imperfections, there is little evidence in Niger that such imperfections exist. In the absence of such a market-correcting rationale, rather than producing net additions to value added, such interventions merely influence its distribution between farmers and traders. Thus while subsidizing farmer cereals marketing activities may have desirable consequences for income distribution, it is not likely to contribute greatly to an increase in rural sector economic growth rates or in MSE value added.

To foster greater coherence and efficiency in efforts to develop the MSE sector, USAID should enter into dialogue with the GON and other donors to raise a number of issues which are necessary if MSE development efforts are to contribute to MSE growth that exceeds the rate of population increase. In particular, two main points need to be stressed:

Donors should be encouraged to sell technology to MSE beneficiaries at something approaching its market price. Also, MSE training initiatives should require real cost contributions from beneficiaries. Selling both technology transfer and training assistance has a number of important beneficial effects:

- it encourages more efficient use of technology and training by basing their allocation on their marginal utility as perceived by recipients rather than on the peculiar administrative procedures or philosophy of the donor/NGO responsible for delivering them,
- it increases the motivation of recipients to see that the assistance received is used effectively, thereby increasing the likelihood that the assistance will yield positive economic returns,
- it helps reduce distortions in the competitive environment between donor supported MSEs and those not receiving any assistance, and
- it will help leverage available funds to reach a larger number of beneficiaries.

Where income constraints prevent potential beneficiaries from making required contributions, the necessity for the efficient credit delivery mechanisms referred to above is paramount. Given the variety of donor objectives, it is unrealistic to expect all donors and NGOs to adopt identical guidelines on beneficiary contributions for micro-enterprise development activities. However, there is definitely a need for greater attention to this issue which USAID should be pursuing jointly with other donors.

MSE promotion efforts must focus on the needs of individual MSE entrepreneurs as well as collectively organized formations. If significant progress is made towards requiring real contributions from beneficiaries of MSE assistance programs, the conflict between promoting individual or cooperative enterprise becomes much less of an issue. By introducing a meaningful level of price rationing, NGOs and donors can be more assured that their assistance will have a positive impact regardless of whether its beneficiaries are individuals or mutualist groups. Yet in the current environment, where few donors sell MSE assistance to beneficiaries, there is little effective use of price rationing as a principle for targeting MSE development efforts. Thus targeting of assistance often depends more on the philosophy of the donor or NGO than the capacity of the beneficiary to utilize the

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

assistance effectively. The collective ethos of many NGOs leaves individual non-mutualist MSEs outside of their field of vision. Although there are programs which offer assistance to individual MSEs (notably PROFORMAR) individual MSE entrepreneurs have relatively fewer options for finding credit, training or technological assistance than cooperatives or other groups. Donors and NGOs need to take more care to address the constraints of existing individually owned MSEs which are often among the leading and most dynamic operators (as shown by the women peanut oil producers in Maradi) as well as those of collectives that many of them have helped to organize.

c SME CONSTRAINTS

Although USAID's strategy for enterprise development under SO2 focuses primarily on informal sector MSEs, the development of SMEs must still be given some attention. Creating an environment that is more favorable to SMEs can help MSEs in two specific ways:

it can foster the development of supply and demand linkages that create new market opportunities for MSEs. One example of this was encountered by the Team on its visit to Maradi where Sahelio a fruit processing company, has experimented with importing planting material and developing nurseries for producing improved varieties of guava and papaya to provide to MSEs from the surrounding area seeking to improve their fruit tree stock. In this case, the experiment met with only limited success due to problems in producing seedlings which proved to be beyond the technical abilities of Sahelio personnel. Notwithstanding, the potential for SMEs, particularly in the agro-processing sector to foster new demand that can be supplied by MSEs is very real.

it can increase the likelihood of firms "graduating" from MSEs to SME status. In the current environment with its considerable array of poor policies that constrain SME development it is extremely difficult for the more dynamic MSEs to expand their activities so that they grow into SMEs. Many enterprises prefer to operate below a certain threshold of visibility, thereby avoiding a whole array of business regulations, restrictions, taxation and exactions which they can escape by remaining at the micro-level. Unfortunately the benefits of informality also come with real costs. MSEs, for instance, find it quite hard to grow to capture scale economies that would permit them to justify investments in more sophisticated technology that might eventually lead to lower unit costs. They are unable to use telephone lines and faxes to remain in touch with market developments beyond their local areas. They are not seen as serious candidates for credit from formal sector banks. Their market options are often limited by the availability of trusted (often family) personal relations networks. This seriously inhibits their ability to expand and penetrate new markets where they may not have the necessary personal links.

The section below briefly describes the financial and managerial constraints to SME development and goes into more depth on the policy level constraints. The reason for the brief treatment of SME finance and management issues is not that these are not important questions, but rather that they are areas where other donors and programs are already engaged or are planning on making significant interventions, so that they do not seem to be ripe areas for USAID interventions. In addition, whereas USAID has considerable experience in micro-enterprise and financial issues in Niger, it has not been particularly active in the realm of formal sector enterprise development, in which other donors, particularly the French, have a much longer experience record. On the other hand, USAID has played an important role in the policy dialogue on issues affecting the private

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

sector and can still play an important role in creating momentum on key policy issues. Thus issues related to the policy environment for SMEs are given more attention.

(1) Financial Constraints

Just as there is a problem of access to credit among MSEs, there is a similar problem at the level of SMEs. The conservative lending policies of commercial banks in Niger severely restricts the supply of credit to SMEs--particularly for medium-term financing and investment in equipment. The lack of a functioning capital market also severely restricts the supply of equity capital, which is almost always provided through private investors and family sources.

Given the reduced role of the commercial banks in financing almost anything besides trade credit, the major player in SME finance in Niger is the EDF supported AFELEN project which is actively lending to SMEs, although it too has adopted a relatively conservative policy and tends to lend more to well established SMEs than to more risky start-up ventures.

Several donor projects are currently in preparation that should help increase the supply of financing available to SMEs. In particular, the World Bank is considering opening an "APEX" line of credit to Niger to support investments in SMEs at highly concessionary terms. This instrument could provide banks with an attractive refinancing facility to support increased lending to SMEs. In addition, the EDF is also studying the possibility of setting up a new guarantee fund for AFELEN to give it the capacity to increase the scale of its operations.

(2) Management Constraints

The lack of skilled business managers is an important constraint for Nigerian SMEs. During many interviews with bankers, NGO and project personnel, the opinion that Niger lacks both a core of businessmen trained in modern management techniques and a supply of national entrepreneurs who are ready to invest in formal sector business ventures.

In addition, although Niger has a number of management consulting firms to service the SME sector, most of these have a limited capacity to provide services that extend beyond accounting and financial audits. The Chambre de Commerce, d'Agriculture, d'Industrie et d'Artisanat du Niger (CCAIAN), likewise, does not have the expertise or resources to provide help to SMEs in need of managerial assistance. This leaves Nigerian SMEs with few places to turn to for advice on options for financing or new market development.

To address this lack of managerial expertise, the Ministère du Développement Industriel, de Commerce de l'Artisanat et du Tourisme (MDICAT), under its "Programme Cadre de Promotion du Secteur Privé" initiative (hereafter referred to as the "Programme Cadre") is planning for the creation of a SME Assistance Unit which will be operate independently of the Ministry as a service providing unit with expatriate and national technical assistants charged with providing

- support to management consulting firms working with SMEs,
- direct management consulting services to SMEs,
- information on foreign markets, and

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

- help link SMEs with sources of finance and with help on the preparation of specific business plans

Although no donors have yet agreed to finance this unit, it is likely the French will provide funding as well as the expatriate technical assistance. Although it is highly unlikely that this initiative alone will be sufficient to resolve all the management expertise constraints faced by SMEs, should it come to fruition it will be a step in the right direction.

(3) Constraints in the Enabling SME Policy Environment

The major barriers to SME development lie in the very constraining policy environment in which formal sector enterprises operate in Niger. These are briefly outlined below.

Labor Market Regulation

The biggest single policy constraint to the development of SMEs in Niger is almost certainly the persistence of an extremely onerous set of labor market regulations which discourage employment and introduce rigidities into the labor market which constrain formal sector enterprises' ability to rationally manage their personnel. For example, virtually every diagnostic study looking at the enabling environment over the past 5 years has signaled the need for radical changes in Nigerien labor market regulations.⁴⁶

In particular, most observers are in agreement over a number of facets of the system of legislation and regulation governing the Nigerien labor market that stand in the way of SME development. These are briefly summarized below.

The monopoly of the *Service de la Main d'Oeuvre* (SMO) on the recruitment of all private sector employees. Currently, all private sector firms are required to hire only personnel that are registered with and selected by the SMO. All employers are required to seek prior approval or at least notify the SMO of all job announcements. Job applications received by private firms are also required to be transferred to the SMO, who alone has the right to decide on the suitability of individual candidates for the proposed post. To match people with jobs, the SMO is supposed to attribute available posts to the qualified candidate who has been registered the longest with the Service--essentially preventing private sector firms from executing their own personnel decisions.

Private employers report varying levels of rigor in the application of these procedures depending on geographical location. In Niamey, some employers report that they can communicate with the SMO and, as long as the employees they wish to hire are registered correctly, they are usually able to hire them. In Maradi, however, the director of one of the agro-processing enterprises interviewed expressed great displeasure with the local SMO that was preventing him from hiring some former interns because they had insufficient longevity on the SMO rolls. Employers complain of frequent abuses and subversion of the process, as the SMO has considerable discretionary power to impose candidates on enterprises. Even without any abuses of the formal

⁴⁶ A short sampling of studies which have underlined the need for a reform of labor market regulations include the J.E. Austin MAPPS Phase II Private Sector Description, June 1991; the final report from the UNDP/UNIDO sponsored Table Round sur Le Secteur Prive, June 1993; and Abdou Djibo and Barhouni Maliki, politiques et mesures de promotion du secteur prive: bilan et perspectives, UNDP/UNIDO, February 1993.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

rules governing the process however, the ability of enterprises to make their own personnel selection choices is seriously impeded under this system Efforts to promote investment and encourage the graduation of informal sector enterprises to the formal sector are unlikely to meet with much success while this system exists

Rules governing the dismissal of workers for economic reasons Employers wishing to reduce their workforce in order to cut personnel costs must make an application to the *Inspection du Travail* which spells out the financial situation of the enterprise with balance sheets from the last three years, a list of all employees broken down into foreigners and Nigeriens, a list of those employees subject to job cuts and an opinion from a representative of the employees Foreign workers are required to be cut first The *Inspection du Travail* is charged to make a ruling on the application which is then approved or disapproved by the Minister of Labor The delays involved in this procedure impose heavy costs on employers, as there is no mandatory period by which the *Inspection du Travail* must issue a ruling In addition, the possibility of refusal places enterprises facing serious economic downturns in peril of bankruptcy

Requirements that overtime labor be approved by the *Inspection du Travail* To get authorization to schedule overtime hours employers must request and authorization from the *Inspection du Travail* The *Inspection du Travail* is required to consult the labor unions active in the relevant labor category which must issue a judgment on the request within 8 days If the unions fail to issue a judgment or respond favorably the application is supposed to be approved by the *Inspection* Authorizations are only valid for a period of 6 months and cannot exceed 8 hours per week of overtime per worker

Invasive workplace regulations Personnel of the *Inspection du Travail* are authorized to enter the workplace at any time without prior notification to check for violation of health, safety and labor codes All enterprises must be inspected at least 3 times per year Although this is a common feature of developed country labor market regulation, in Niger, where the illiteracy rate is at least 72 percent and where the texts governing working conditions are complicated and not well publicized, the potential for corruption is quite strong Furthermore health or safety code inspections are often used as excuses to look for unauthorized employees not hired through the official system Rather than fight these continual battles, many enterprises simply prefer to remain in the informal sector

Restrictions on Foreign Investors and Employees

Businesses whose equity shares are more than 50 percent held by foreigners are required to obtain a business license (*autorisation d'exercice*) before they are allowed to set up operations Applications are made to the Minister of Commerce for firms operating in Niamey or to the Regional *Prefets* for firms outside of the capital The first license is valid for a period of 5 years, after which another application must be submitted After the first renewal, licenses are renewed every 10 years

The paperwork required for these licenses, while lengthy, is not a major problem for foreign businesses Most of the paperwork is designed to make sure that the businesses are current in all their tax payments and are in conformity with Niger's social security system However, the very existence of this licensing system, where no foreign company can be sure whether or not it will be permitted to operate in five or ten years is a powerful disincentive to foreign investment Although current regulations ensure that applications for renewal are automatically accepted if no response is given by the administration within 45 days, the possibility of a refusal is still present

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

The long delays and unclear decision-making process involved in the attribution of the initial license is probably even more dissuasive. In the case of Sahelio and DHL obtaining the initial license took over a year. In a world where competition between countries for foreign investment is becoming increasingly fierce there is a clear need for a more transparent system which gives investors greater assurance that they will not meet with administrative delays and that, once accepted their investments are secure.

In addition to the business licensing requirement, Niger's attractiveness to foreign investors is seriously weakened by strict rules on the employment of foreign personnel. To legally employ a foreign worker an employer must first obtain a work visa. This requires an application to the SMO which examines the dossier and transfers it to the Direction du Travail in the Ministry of Labor. A second consideration of the request is made before final transmission to the Minister of Labor who makes the final decision and sends the dossier back to the SMO to inform the employer. This whole process is often extremely time consuming.

The SMO often either rejects requests for the employment of foreigners by suggesting a replacement candidate who is Nigerien, or stipulating that the foreigner be hired on a temporary contract to be replaced with a Nigerien after a specific delay. Given the general shortage of skilled manpower in Niger particularly in the area of business management, the obstacle course set up in front of employers wanting to hire foreigners is a significant obstacle both to foreign investors and to domestic SMEs.

Unsure Rural Land Tenure

The grey area flowing from the lack of formal land titling in rural areas and from the coincidence of various traditional and modern conceptions of collective and individual property and land use rights has long been recognized as a serious obstacle to investment in rural areas and to a more rational use of natural resources. The recent GON initiative to create rural Property Commissions (*Commissions Foncières*) composed of local administrative authorities, traditional chiefs, and technical experts from the office of the Rural Code to adjudicate land disputes and actually allocate written formal titles to individuals represents an ambitious attempt to resolve this problem.

However it is important to recognize that this the process being set in motion at this moment is unlikely to produce tangible results in the near future. The extremely complex and politically sensitive dossiers that the Property Commissions will be charged with resolving will likely take years to resolve. The initial experiences of the most advanced Commissions in Mirriah and Maine-Soroa which have been financed with help from the Danish aid agency show mixed results. The Commission in Maine managed to inscribe very few cases on its rolls, while the Commission in Mirriah had somewhat more success. In any case the Commissions face serious obstacles such as

- a lack of clear legal precedents and directions to serve as guidelines,
- a composition too heavily weighted towards administrative authorities with the attendant risk of appearing non-legitimate,
- a serious lack of trained personnel and material to carry out the relatively complex administrative tasks associated with adjudicating scores of complicated dossiers, and
- the incomplete state of rural land surveys and technical analyses of land-use potential

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

Thus while the will of the GON to resolve this long standing issue is certainly present, there continues to be a serious need for support for the process of rural land dispute resolution

Burdensome International Trade Procedures

Although export and import licenses were officially abolished in 1986 the procedures set up to replace them still impose heavy costs on enterprises engaged in international trade In particular the "One-Stop Window" or *Guichet Unique* set up within the CCAIAN to streamline export and import procedures and centralize trade statistics probably does more to discourage international trade or at least drive it into the unrecorded informal sector, than it does to promote it or record it

Specifically, the *Guichet* requires all firms desiring to import or export to go through a complicated two-step procedure and pay fees which as pointed out by the MAPS Phase II survey, total more than the export licenses required before the abolition of export taxes To be eligible to import or export any merchandise including raw agricultural products a firm must first apply to the *Guichet* office in Niamey, or to one of its regional offices for an identification number which serves to open its file and is valid one year to be renewed annually Thus to get a number firms must present each year

- proof that they are inscribed on the rolls of the *Registre de Commerce* as export import, or export-import trading firms
- proof of having paid the *patente* for the current year as a registered export, import or export-import trading firm (minimum payment of 435 000 CFA)
- proof that they have paid their current year dues to the CCAIAN (minimum payment of 75,000 CFA), and
- proof that they have paid the required annual fees to the Conseil Nigerien des Utilisateurs des Transports (CNUT) (minimum payment 30,000 CFA)

Once all these papers have been presented, the firm is issued an identification number To actually import and export merchandise, it then embarks on a second round of administrative procedures by applying to the *Guichet* for a statistical registration forms (*fiche d'enregistrement statistique*) on which its actual exports and imports will be recorded Fees associated with these operations include 2 000 CFA for purchasing the forms, one of which is required per product traded, and fiscal stamps totaling 6,000 CFA for trade operations within the Franc Zone and 9,000 CFA for operations with countries outside the Zone Thus total costs at this stage amount to 8 000 to 11,000 per product traded The statistical registration forms are valid for 6 months if the operations they sanction require foreign exchange transactions at a bank (they must be presented to the Bank for to receive payment or send funds to the supplier) and for 3 months if the transactions are settled in cash Three month extensions are granted for 1,000 CFA Once the statistical registration forms have been issued, the firm presents them at the customs posts when the goods cross the border and quantities and product types are verified

The costs of these operations, both monetary and in time and effort are considerable The minimum total cost for legal trading in only one type of product, once the obligatory *patente*, CCAIAN and CNUT fees are added in is 548,000 CFA and even this would not be sufficient for a whole year and would require multiple trips to the *Guichet* to apply for extensions and new statistical forms While technically, all firms are required to pay

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

the *patente* and CCAIAN fees anyway, many enterprises manage to avoid these fees or pay the *patente* in categories with a lower minimum rate than the 435,000 minimum for export-import trading firms. Thus in reality the marginal cost of complying with these regulations is quite high for most firms--particularly smaller ones or occasional exporters or importers. As of June 1995 a total of only 166 firms were registered with the *Guichet* as legal exporters or importers.

Of course only a fraction of Niger's international trade passes through the *Guichet Unique* system. Given the administrative complexity of these procedures and the costs associated with them, this is hardly surprising. The only possible reason for the *Guichet's* existence is to collect statistics on trade, although it is also supposed to promote exports, and indeed it does publish a quarterly bulletin of trade statistics. However the value of these statistics, which fail to capture any informal cross border trade, is extremely dubious and duplicate statistics collected by the Customs Service (Direction Generale des Douanes). Thus there is little justification for the *Guichet* as a point for the collection of trade data.

Business Taxation

Although there are many opinions about what is wrong with Niger's tax system--sparked by the current severe fiscal crisis, most observers agree that the country suffers from a too narrow tax base concentrated in a depressed formal sector. As a result of this narrow tax base, many believe that the tax burden falls too heavily on formal sector enterprises with a stifling effect on their growth prospects. Businesses also complain about the proliferation of different taxes which must be calculated separately and impose extra costs and occupy management attention.

Although figures on tax payments from the informal sector are, by definition hard to come by there is general agreement that the way to widen the tax base is to increase collections from the informal sector. This view amounts to an implicit recognition that the number of MSE enterprises paying the major informal sector tax--the *patente*--is smaller than what it should be. Indeed there is some evidence to support this view. A recent survey of individually owned non-incorporated businesses completed by the CCAIAN with the assistance of the USAID Projet d'Analyse et de Survie de la Politique Economique (PASPE), shows that only 582 out of the 955 business who agreed to provide information on their *patente* payments reported that they actually paid the *patente*. Still before firm judgments can be made about the scope for increasing taxation on informal sector businesses there is a serious need for better data on the incidence of taxation on various categories of businesses--within both the formal and informal sectors.

6 VALIDATION OF MISSION STRATEGY

Two important assumptions are implicit if the approach that USAID has taken in SO2 is to lead to significant growth in the rural sector:

- accelerating growth in both primary sector agricultural production and the MSE sector when taken together, will lead to an overall rural sector growth rate superior to the three percent rate of population growth
- MSE sector growth can be accelerated most effectively by expanding access to financial services

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

Each of these assumptions can be questioned. The following section examines each assumption on the basis of evidence already presented. Question 1 focuses on role of the MSE sector in the first assumption (as the question of the potential for growth from agricultural production has already been dealt with in Part B of this report). Question 2 examines the second assumption.

Question 1 Do MSEs really have the potential to make a significant contribution to economic growth?

On the surface, there is no immediate reason to suspect the MSE sector has an important role to play in overall economic growth. As has been noted above, policy barriers stand in the way of the graduation of MSEs into larger-scale enterprises. Many MSE activities are done on a part-time basis when other demands on labor (mainly crop production) are low--suggesting that MSEs are a residual activity to be engaged in when no alternatives are available.

However, despite the lack of opportunities for the graduation of MSEs and the part-time nature of many rural MSEs, strong evidence exists to show that MSEs do indeed play an extremely important role in contributing to manufacturing and service sector GDP. As shown in section D-5, the 802 million FCFA value added from the peanut oil sub-sector alone amounts to almost 10 percent of total formal sector agro-processing value added and other sub-sectors of MSE activity make much larger contributions to GDP. Once all these other sub-sectors of MSE activity are factored in, it becomes clear that the majority of manufacturing and service activities in Niger are carried out by MSEs. Thus, the Mission's strategy of focusing on micro-level enterprises as a key leveraging point for influencing economic growth is thoroughly rational. This is where the value-added and enterprises are

One important caveat is needed here. To leverage MSEs to produce significant economic growth, it is crucial that interventions to remove MSE constraints reach a large number of MSEs. Because the contribution of any individual or even small group of MSEs is quite small, significant growth can only be achieved if there are improvements in the operating environment for a large number of MSEs. This has important implications for the design of financial sector interventions under SO2. Efforts such as those depicted below in Section E, that seek to realize a significant increase in the outreach of financial services to MSEs through the introduction of self-financing financial institutions that can mobilize savings, can make a very real contribution to economic growth precisely because they have the potential to reach a large number of MSEs. In contrast, marginal increases in funding for non-sustainable financial institutions that only recirculate what they are given by the donors are unlikely to spark significant improvements in these institutions' ability to reach large numbers of MSEs. Therefore, it is equally unlikely that increased funding for such institutions will help spur significant economic growth.

Another concern to bear in mind is that, although the SO2 focus is squarely on MSEs, the constraints operating on SMEs must also be addressed. In fact, the potential for growth in such areas as processed agricultural exports (which are virtually non-existent at present) will hinge on the development of formal sector SMEs that are capable of governing the production process and negotiating the logistics of international marketing.

Of the three SME constraints mentioned in Section 4, USAID's resources are better spent concentrating on the policy constraints as opposed to the firm-level financial and management constraints. There are for two reasons for this:

- as mentioned above, other donors are planning or studying interventions which should make significant contributions to addressing firm-level constraints for SMEs.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

- although USAID has amassed considerable expertise in the area of firm-level MSE promotion it has little corresponding experience in Niger dealing with firm level development among formal sector SMEs in contrast USAID has significant experience and strength in the analysis of policies affecting the private sector

Given these two factors, a key part of the results-package that USAID, therefore, should be building around SO2 must include actions to address some of the policy constraints identified in the section D-5

Conclusion The focus of the Mission on micro-enterprise development as a key component of SO2 is justified Accelerated growth in the MSE sector can make a significant contribution to economic growth given the weight of MSE production in manufacturing and service sector GDP. Mission activities targeted at larger SMEs should concentrate mainly on improving the enabling policy environment, as major firm-level interventions in this sector are planned by other donors

Question 2 is the Mission SO2 Strategy focused too narrowly on the financial sector, while neglecting other areas of constraints on rural sector MSE growth?

While financial constraints are not the only ones facing MSEs they almost certainly pose the most immediately binding set of constraints facing most MSEs. Many MSEs have the capacity to expand their operations if they could find reliable and convenient sources of credit. In the 1990 Michigan State study of the informal sector, surveyed MSEs listed the lack of finance as their second most severe problem after the general lack of demand they were witnessing in the market at the time of the study--well ahead of problems related to technology and the policy environment

This is not to say that addressing other problems could not also improve the growth prospects of MSEs. As discussed in the previous section, there is great scope for increasing the efficiency of MSEs through facilitating their access to technology. Furthermore, there is room for the creation of new MSEs specializing in the provision of such technology through rental agreements. However, in a context where much of the technology that could be put to use is well known (mills, tractors animal drawn-carts, water pumps), the main obstacle to its dissemination is the lack of appropriate financial mechanisms for delivering credit. The need for medium-term credit, to allow multi-year term loans to accommodate more expensive and durable pieces of equipment is particularly great

The non-financial constraints on improving access to technology are largely a question of promoting new technology development efforts--which are best done in-country by bringing together local and foreign specialists to develop affordable prototypes with local materials. This sort of "technology incubator" already exists in Niger and is supplied by the PROFORMAR/NIGETECH projects. There is little reason for USAID to duplicate these efforts

In addition to finance and technology, the issue of MSE entrepreneur/worker training to address in particular the lack of technical skills is a serious issue. Although many NGOs provide basic business skills training, there are fewer options available to individuals who want to rapidly acquire technical competency in such common MSE productive areas as tailoring, woodworking, metalworking, or equipment repair. This is a problem mainly in the incentive structure facing existing skilled artisans, who have little incentive to train large numbers of

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

people who would then compete with them in the market. To facilitate the growth of MSEs, therefore, there is a need for devising new ways of leveraging the technical competence that already exists in the MSE sector to train greater numbers of people. As a complement to its financial sector focus, therefore, USAID needs to investigate and possibly fund new forms of technical training which will help to develop sustainable training modules that will alter the incentive structure facing traditional artisans to encourage them to train greater numbers of people.

Conclusion The primary focus given to the financial sector under SO2 is justified. Although there is also a need to facilitate MSE access to technology, constraints on the availability of technology to MSEs are, themselves, largely financial. The development and adaptation of technology for Nigerien MSEs is being adequately handled by other donors. One important non-financial constraint that should be addressed by USAID, however, is the lack of technical training models capable of rapidly responding to a growth in the demand for skilled technical labor in the MSE sector.

7 RECOMMENDATIONS

The following section presents an array of recommendations to USAID to support the Missions SO2 objectives in the area of enterprise development. As with the constraint analysis above, it is divided into two sections—one for MSEs and for SMEs. Where called for, recommendations which call for in-depth USAID activities are described as "illustrative activities" and are highlighted in boxes. Recommendations are presented according to the constraint they address as shown in Figure 4-1.

a Recommendations for Promoting MSE Development

(1) Finance

Support measures which will permit a rapid expansion of credit to large numbers of MSEs. Specific recommendations and illustrative activities to expand the supply of credit available to MSEs are specified in detail in Section E of this report. Here we only reiterate that it is crucial that USAID's strategy for providing financial services includes activities to significantly increase the ability of financial institutions to reach large numbers of MSEs. Without attention to this result, it is unlikely that SO2 will contribute to significant MSE sector growth. As shown in section E, the most promising way of doing this is likely to be developing a workable model of a self-financing financial institution, which is able to tap savings in rural areas and recirculate it in the form of MSE credit. Unsustainable credit programs, which neglect the savings element and merely recirculate donor provided funds, are unlikely to provide the quantum increase in loanable funds that would be necessary to make a significant dent in the total credit needs of Nigerien MSEs.

Increase the ability of NGOs to provide medium term credit. Although MSEs require both short- and medium-term financing, the virtual absence of medium term loans makes this a particularly pressing problem. Medium-term financing is required to increase the ability of MSEs to invest in expensive durable equipment that cannot be financed on a short-term basis. To strengthen NGOs capacities to deliver medium-term credit, NGO personnel will need to receive training in the assessment of medium-term credit risk and in the management of loan portfolios with average durations of over a year.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

Utilize NGO and donor-supported financial institutions to monitor MSE activities There is a great need for better information on MSE activities. Simple regularly collected data on the number, amounts and repayment rates of loans made by NGO credit programs to MSEs by sub-sector could provide a very useful data base for assessing the evolution of MSE activity. Unfortunately, most NGOs either lack the capacity to provide such information or they must go through a time-consuming examination of their records each time they want to come up with the information. Therefore USAID should consider ways of encouraging NGOs to keep such statistics. This almost certainly would involve some training for NGO staff in simple statistical and data base operations along with the provision of adequate software. In addition, after supplying the necessary logistical (and possibly financial) help USAID may also require regular data reports from the NGOs credit programs it supports in order to compile its own data-base on MSE activity.

(2) Access to Improved Technology

Leave the development of technology packages to other donors Current donor efforts in Niger to develop appropriate technology for MSEs, mainly the PROFORMAR and NIGETECH projects, are making significant contributions. Given the experience of the ILO and EDF in supporting these initiatives, and the relative inexperience of USAID in technology development, this is not a particularly high priority area for USAID assistance.

Increase the ability of NGOs to provide medium term credit As noted above there is significant scope for speeding the dissemination of technology to MSEs by increasing their access to medium-term credit. This will facilitate MSE purchase of expensive technology packages that require longer payback periods.

(3) Technical Training

Promote the development of technical training schemes which seek to mobilize capacities of MSE artisans in a sustainable fashion The need for a more rapid and flexible system for technical training can best be met by exploring new ways of leveraging the technical competencies that already exists in the MSE sector. While this is easily done by paying MSE artisans with donor-supplied funds to give technical training courses as some donors are currently doing, such efforts are rarely sustainable. This is because they rely on donor financing and do not attempt to link student tuition or training-fees to the remuneration of the MSE technical trainers. This makes the entire effort dependent on the continuation of donor support. One promising model which places more emphasis on sustainability than most donor technical training programs, has been developed by Ecole Moderne de Formation Polytechnique (EMFP) with the support of CARE in Maradi. This experience warrants a closer investigation to see whether it can be replicated in other areas. The box below provides a brief description of the EMFP experience and suggests some possible activities for USAID.

Illustrative Activity Evaluation and Possible Extension of the CARE/EMFP Training Model

The Ecole Moderne de Formation Polytechnique (EMFP), set up by CARE in Maradi offers what appears to be a workable model for accelerated technical training that is notable for two reasons

- it shows more potential for sustainability than most donor technical training efforts,
- it mobilizes practicing MSE artisans to provide more concentrated and accelerated instruction than is available in traditional MSE apprenticeship arrangements

In the EMFP model, which has evolved over the past several years, artisans from the MSE sector are recruited as trainers by the school, which then supplies them with the technical equipment, facilities and pedagogical materials to give technical training modules lasting from three to eight months. Although other donor programs recruit MSE artisans for training purposes, the innovative feature of the EMFP system is that the remuneration of the artisans is based not on donor funding, but on fees collected from the students which are split with 60% going to the artisan/teacher and 40% to the school to support its overhead expenditures. Fees are also set at relatively high levels. For the 1995/96 school year for instance, the maximum fee level has been increased to 70,000 FCFA. In general, courses have been nearly fully subscribed. According to EMFP management the fees received in the 1994/95 school year covered about 50% of the school's costs.

The particular advantage of this model is that it offers incentives to MSE artisans to devote significant time to training, outside of their own private business interests, without relying directly on donor subsidies. Although the operating expenses and materials of the school are still subsidized and the school is far from capable of sustaining itself based only on its own revenues, its ability to weld the expertise of MSE artisans with NGO management and pedagogical expertise, while making headway towards sustainability indicate that it is a model worth a closer look that may warrant duplication.

Specific actions which USAID should consider include

- an evaluation of the EMFP to assess its potential for achieving financial sustainability, follow-up on the activities of its former students, and assess its impact on the MSE sector in the Maradi region, and
- pending the results of this evaluation, the extension of the EMFP model to other areas in Niger. In particular, Zinder and Agadez may be promising candidates, since both regions do not benefit from the technical training modules available through the PROFORMAR project

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

(4) Management Training

Continue to encourage the delivery of basic business management training to borrowers in NGO credit programs engaged in MSE start-up activities For credit programs that are designed to encourage start-up MSEs it is essential that credit be accompanied by some form of business skills training focusing on basic product cost accounting and sales strategies. The provision of this supplemental training is already a common practice in most donor credit programs and a wide variety of Nigerian NGOs have come into existence to provide such services. In designing its future credit programs USAID should also require that borrowers make significant cash contributions to the cost of such training programs. This would enhance both the sustainability of such programs and encourage better targeting by making sure that recipients have a real interest in the training. If necessary, the initial contribution could be included in the NGO loan package. These training efforts should place special emphasis on offering business skills training (possibly combined with basic literacy courses) to women, as low literacy and rudimentary educational levels among women are important limiting factors on their ability to operate successful MSEs.

Encourage the development of fee-charging firms offering management consulting and other services to MSEs The need among more advanced and successful MSEs for management advice going beyond the basic business skills training offered by most NGOs could best be met by the development of specialized consulting firms. Currently few or no such firms exist to service the MSE sector. USAID could contribute to the development of such firms by

- conducting a market feasibility study to estimate the demand and willingness to pay of potential MSE customers for such services as export market identification and brokering assistance in the development of loan applications, payments and collections services investment and feasibility analyses, and market analyses
- subsidizing training for potential MSE consultants in areas that show particular promise. Such opportunities may prove to be viable alternatives for laid-off civil servants
- Eventually subsidizing or investing in start-up consulting firms targeting MSEs. It is ironic that while donors do not hesitate to offer subsidized credit, which many MSEs could pay back at unsubsidized rates, they show little interest in subsidizing potential MSE service providing firms to encourage them to enter this important market

(5) Donor Coordination

Participate in the GON "Programme Cadre de Promotion du Secteur Privé" (Programme Cadre) initiative, should this develop into an effective forum for donor coordination on issues affecting MSEs The MDICAT, with the help of the UNDP, is in the process of elaborating the Programme Cadre to promote private sector development and improve the coordination between various projects active in private sector development. Two facets of the Programme Cadre are of particular relevance to USAID. These are

- the component of the Programme Cadre which addresses the coordination of various MSE activities. This component calls for the creation of a MSE Coordination Unit ("Cellule de Concertation pour la Valorisation des Aides pour le Développement des Micro et Petites Entreprises") which would monitor MSE projects and sponsor discussions and research on issues affecting the promotion of MSEs. Possible USAID funding of this unit and the location of

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

USAID-financed technical assistance in it would give USAID a broad entree into the definition of MSE policies on a national level, as well as fostering coordination between USAID and other donors which will create opportunities for USAID to emphasize its point of view on such issues as the sustainability of MSE interventions

- the Programme Cadre's call for the creation of a Private Sector Coordination Committee ("Comite de Coordination") regrouping the major donors, GON officials and private sector representatives, this body has at least the potential to be a useful forum for promoting coordination among donors on issues affecting MSEs USAID participation in this forum could also give it increased leverage in discussions with the GON and other donors over important MSE policy issues

It should also be emphasized that, at present, the Programme Cadre exists only on paper Other donors particularly the French, have expressed interest in participating, but it has yet to be seen whether or not the two initiatives described above much less the rest of the Programme Cadre, will actually materialize as envisioned USAID support at this early stage of development, could provide a useful impetus that would encourage other donors to join and increase the likelihood that the interventions planned would actually evolve into useful activities This may of course not happen due to innumerable political and bureaucratic obstacles Should this be the case then USAID should look to other means to foster increased donor coordination on MSE sector issues

The MSE Coordination Unit

USAID should consider placing technical assistance within the MSE Coordination Unit planned under the Programme Cadre for which the GON is currently seeking funding. As currently envisioned, this unit would fulfill a number of functions. Specifically it would

- coordinate and monitor the MSE activities of different donors, NGOs and the GON,
- intervene with individual projects and donors to mobilize resources to support MSE development,
- conduct research on various approaches to micro-enterprise development in Niger, and
- organize conferences and workshops on issues of relevance to MSE promotion

As presented in the Programme Cadre, the MSE Coordination Unit is envisioned as an independent donor-financed project with the MDICAT as the counterpart agency. Current plans call for the unit to be headed by an expatriate technical assistant with three national experts. The total estimated budget for the unit is estimated to be 393 million FCFA, with 70 million to be provided by the MDICAT and 321 from donors.

The advantage of placing technical assistance in this unit is that its mandate is broader than that of the

typical donor project. This will give the technical assistants the freedom to enter into dialogue with their counterparts in other MSE projects all over Niger. In this way, they and USAID will be better able to keep track of broad trends in the MSE sector while remaining abreast of all donor activities. In addition as the primary monitoring and research body for MSE policy issues in Niger, this unit will play a key role in defining appropriate MSE policies and in publicizing specific issues with private sector participants, donors and the GON. By financing a large part of such a unit, USAID would also be "buying itself a place at the table" as a major donor in the MSE sector and even, perhaps, as the intellectual leader in the sector given the Coordination Unit's role as the lead MSE research body in Niger.

The Private Sector Coordination Committee

Particularly if USAID decides to fund the MSE Coordination Unit, it would be an influential player in the proposed Coordination Committee. This forum would present an ideal forum in which USAID, also building on the research results of the Coordination Committee could press other donors on such issues as

- the sustainability of credit activities,
- the necessity of selling technology rather than giving it away, and
- the advisability of targeting MSE assistance towards individually owned MSEs in addition to collective ventures and towards existing MSEs as well as start-up ventures

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

Possible formulas for USAID participation in both the MSE Support Unit and the Private Sector Coordination Committee are described in more detail in the illustrative activity box below

b Recommendations for Promoting SME Development

1 Financing and Management Training

Encourage other donors to focus SME credit provision and management training on businesses with strong links to the rural sector To support its efforts to encourage rural sector growth USAID should encourage other donors active in promoting SMEs through credit and management training and support projects to focus a significant share of their resources on MSEs in such areas as agro-processing

2 Policy environment for SME development

USAID possesses two strong tools for influencing the policy environment for SME development

- Non-Project Assistance (NPA) with which it can provide budgetary support to the GON to encourage specific policy changes in favor of SMEs, and
- economic policy research capacity, primarily provided by the PASPE project, which can be used to furnish analysis and disseminate relevant research findings to create a greater awareness of the costs of policy constraints on SMEs

Both of these tools should be mobilized to promote policy reforms which address the policy constraints highlighted above. Specific suggestions for promoting better policies are given in the illustrative activity boxes below

Illustrative Activity to Promote an Improved SME Policy Environment Non-Project Assistance

Not all the policy issues highlighted in the section on SME policy constraints are appropriate candidates for NPA conditionality. Issues such as tax and land tenure reform involve complicated trade-offs between competing objectives. Furthermore, much of the information needed to select an appropriate policy course is lacking. For these issues, it is difficult to identify clear and realistic policy actions that can be agreed upon by a wide section of GON policymakers and stakeholders. Thus they are unlikely candidates for NPA conditionality.

Among the list of constraints to be addressed three issues stand out as appropriate candidates for NPA conditionality. These are

Reform of labor market regulations There is little reason to maintain the monopoly of the SMO on recruitment. The repeal of the regulations upholding the SMO's monopoly rights is a simple task which could be accompanied by its transformation into a simple recruitment clearing house where vacancies can be posted and job applicants can register in an attempt to improve the flow of information in the labor market. It is crucial, however, that there be no requirement that either employers or job applicants register with the SMO as this service should be entirely voluntary. Besides the monopoly of the SMO, there is a clear need to liberalize the rules governing the dismissal of employees for economic reasons. It is crucial that employers have the ability to adjust their labor costs in relation to business prospects by laying-off personnel without applying for authorization from a public bureaucracy. Significant reforms in these two areas has the potential to greatly increase the attractiveness of investment in SMEs. Similarly, there is little justification for the requirement of authorizations for the use of overtime labor--which should be left to the discretion of individual employees and employers.

Eliminate the business licenses required of foreign-owned firms There is little reason to require foreign investors to run a bureaucratic obstacle course to obtain an authorization to set-up their business. If there are specific sectors the GON does not want foreigners to operate in, it should establish special restriction for these and completely liberalize investment in all other sectors. The delays encountered by some firms and the conditional nature of the business license, in which an investor is not sure of his future rights to operate in the country, serve to discourage potential investors. Revising existing regulations to do away with business licenses for foreign firms is a simple policy measure to enact which entails no complicated implementation issues and is therefore a good candidate for NPA conditionality.

Abolish the *Guichet Unique* for international trade There is little reason for the continued existence of the *Guichet Unique*. In effect, it is a disguised version of the export licenses and taxes that USAID has already fought successfully. It does little to promote international trade and its utility as a trade data collection point is virtually nil because of small portion of international trade that passes through its system and the replication of responsibility with the customs service.

Illustrative Activity Utilizing Economic Research To Promote Policy Reform

In Niger, where significant progress has been made toward developing an open political system in which policy issues are increasingly resolved in a democratic fashion and in which various groups, including labor unions, civil rights NGOs, women's groups and business associations, are becoming increasingly involved in policy discussions, promoting policies favorable to SMEs by working with stakeholders in the emerging civil society should be an important part of USAID's SO2 strategy. In particular, there is significant potential to promote reforms by linking the economic research and policy analysis capacities that are being developed under the PASPE project with civil society stakeholders who could use such analyses to develop advocacy strategies and lobby for policy reforms that are favorable to SMEs.

Unfortunately, although PASPE has brought in some private sector stakeholders to review research studies and has organized a limited number of conferences to disseminate research findings, it has made little progress in following-up policy research efforts with either civil society groups or the GON to draw conclusions and generate real impetus for policy reform. The main reason for this, which was noted in the PASPE mid-term evaluation, appears to be that the resident advisor and the rest of the PASPE staff are too burdened with administration and all the tasks associated with ensuring that sufficient progress is made on the PASPE Research Agenda. This leaves them little time to devote to research follow-up which could and should be oriented towards developing policy reform proposals from the longer research studies and seeking to involve various public and private groups in policy debates and lobbying activities.

Realistically for PASPE to develop its capacity to provide more action-oriented follow-up to its policy research activities, there is a need for an additional expatriate technical assistant. The person would help the GON, private sector associations and NGOs develop concrete policy reform proposals as well as strategies for implementing them. Specific duties would include such tasks as

- writing policy discussion papers on specific topics drawn from the PASPE Research Agenda and in response to requests from public and private sector stakeholders,
- using PASPE research to jointly develop policy positions and advocacy materials with private sector stakeholders who are potential advocates of MSE-favorable policy reforms,
- working with private sector lobby groups to increase their capacity to use economic analysis as a lobbying tool, thereby increasing their ability to influence both government policy-makers and other private sector groups,
- organize public policy discussion fora to promote a wider dissemination of PASPE research results, and
- following-up PASPE research studies with GON officials to determine needs for subsequent analysis

E Agricultural and Rural Enterprise Credit -

1 Overview of the Financial Services Sector in Niger

The financial sector in Niger is composed of very few formal institutions, commercial banks, finance companies and insurance companies, a larger and more diverse group of semi-formal financial institutions, largely NGO funded and managed, and many dynamic informal financial services

The formal financial Sector Niger has fewer operating commercial banks (4) and more bank failures (12) than any other country in the Sahel. These banks, are still shell shocked by the plethora of financial institution failures in the mid 1980's. The remaining surviving banks have evolved into extremely conservative institutions depending largely on access to the international money market window provided by the BCEAO, for their income. These banks also lend a smaller amount of funds to finance trade and public works projects. These loans are collateralized at over 100%. The formal financial sector continues to favor the urban and industrial sectors over the rural micro- and small scale enterprise sectors.

With this backdrop, it is understandable that commercial banks range from cautious to unwilling to lend for micro-small or medium scale production and transformation activities. Commercial banks in Niger are unprepared to play a significant role in the financing of private sector micro-small- and medium scale enterprises. They lack the skills to assess, manage and recover on a rural micro- and small scale enterprise portfolio. There are legal regulatory and policy constraints, that make it difficult for new businesses to start up, and for banks to seize their assets if they fail. Lacking knowledge of how to lend in new markets, and facing a hostile environment in which to lend, banks are unprepared to expand their financing activities. Because they are not lending, they are not in a position to mobilize savings either.

These are changing times however. Banks are no longer allowed to invest unlimited funds in the central bank money market window. In October of 1993 the BCEAO implemented a policy limiting the amount of funds member banks could invest in the money market window. This policy was implemented in order to encourage commercial banks to lend funds for private sector activities in the countries in which they operate. For the commercial banks, their major income source was shut down to a trickle, while no new alternatives seemed available.

Banks have not yet readjusted to the new rules. As a result, the commercial banking sector in Niger suffers from excess liquidity. Liquidity in excess of required reserves is estimated at 30 billion F CFA. This amount is greater than all donor funded private sector credit activities combined. Intuitively banks have two options. They can downsize, limiting their investment portfolios to the small set of fully collateralized loans to large traders and public works contractors. The second strategy is to grow. To this banks will need to learn how to take advantage of high growth potential activities, expand and diversify their loan portfolios, and attract more savings to finance the expanded lending portfolio.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

All three banks have adopted the short term risk averse strategy of down sizing. Two of them offer lower rates for long term savings than for short term accounts. The minimum balance required to maintain a commercial account in Niger is 50 times higher than among Malian banks. Banks' management is aware however, that they are at a crossroads. If they cannot grow, they will not survive in the long term.

This awareness creates an opportunity for the commercial banking sector to play a more important role in the financing of private sector enterprises than they ever have before. If donors want to see significant expansion in the financial sector, now is the time to intervene with the commercial banks. The commercial banks have a capacity perhaps only surpassed by the informal sector to finance a growing agricultural and MSE enterprise sector⁴⁷.

All legally recognized organizations providing financial services but not regulated by the banks constitute the semi-formal sector. With a few interesting exceptions, the semi-formal financial sector in Niger is 15 years behind the frontiers established in the field of rural micro- and small- enterprise finance.

The semi-formal financial sector is highly dependent on donor funds. Most of the structures are not concerned with operational self-sufficiency, and are based on the mistaken belief that Sahelian people have not and cannot mobilize savings until they receive a donor funded loan. Interest rates and operating costs are highly subsidized for most of them. A number of them defend their approach by calling theirs a modified Grameen Bank strategy⁴⁸.

The USAID funded financial services projects and the FED funded AFELEN project are exceptions. While none of them have yet achieved operational self-sufficiency, the three AID funded projects and AFELEN are striving towards that goal. At this point only WOCCU is committed to achieving full financial self-sufficiency. CARE/BRK and CLUSA/SICR are looking for subsidized loan funds which they in turn will on lend to their clients.

USAID funded financial service projects USAID is currently funding three rural and micro-enterprise financial service projects. Each of them has taken a different approach to offering financial services, and despite some major problems, each still has the possibility of becoming operationally self-sufficient in the next few years. The three projects are WOCCU/CPEC, using the WOCCU credit union approach, CLUSA/SICR operates as a rural loan brokerage service, and CARE/BRK operates much like a finance company.

USAID is not the largest donor in the field of enterprise finance but it is the recognized leader in promoting sustainable financial institutions. It is recommended that AID/Niger take a more active role

in the informal sector is higher than than in the formal sector but the structure of the informal sector makes it ineffective at financing production activities.

een Bank is more misunderstood than maligned. It has achieved operational self-sufficiency. It is not interested in achieving financial referring rather to borrow funds from private sources at concessionary rates. This strategy is only as sustainable as the commitment provide large sums at subsidized interest rates. For the Grameen Bank beneficiary of the charismatic leadership of Muhammed Yunis e most popular pooerst of the poor countries in the world this is a defensible strategy. The Sahel on the other hand has benefitted n matic financial sector leader nor from such devoted donor support. Thus achieving full self-sufficiency including the costs of capital i egy for Sahelian institutions than modelling themselves after the Grameen Bank.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

in disseminating techniques and principles from successful microenterprise institutions elsewhere in the world USAID/Niger should pay particular attention to ensure that the CLUSA/SICR and the CARE/BRK projects have access to the technologies and technical assistance needed become operationally self-sufficient and ultimately sustainable

The credit unions in WOCCU model is that they reach financial self-sufficiency before operational self-sufficiency, because they only lend members deposits thus they are paying for the full costs of funds lent at "real market" rates WOCCU has developed an approach which it uses worldwide providing the advantage of a known model, an established monitoring and information system WOCCU has exceeded its end of project indicators already in terms of number of new credit unions organized The WOCCU approach has high up front training and monitoring costs which are highly subsidized This subsidy continues until the a sufficient mass of credit union are organized to support the costs of maintaining a central lending facility, and a central federation that can assume the monitoring and evaluation costs of credit union regulation

Since 1985 CLUSA has been brokering loans between one or more commercial banks and rural cooperative organizations The cooperative groups who borrow from the bank function as financial service retailers, the banks as wholesalers CLUSA/SICR has had a repayment rate of over 90% at 90 days past due for three years, making it one of the best performing financial service projects in Niger Due in large part to an uncooperative banking sector CLUSA/SICR is considering reorganizing as a finance company

The CARE/BRK project is the most problematic Lacking an MIS system, adequate accounting internal controls and an adequately trained staff, CARE/BRK is likely to lose 250 million F CFA in bade debt write-offs Fortunately for the project, audits indicated that the institution was in crisis before funds were exhausted Further, CARE/BRK works with donor and not investor funds USAID is historically much more forgiving about poor management of their funds than private investors are There is enough capital remaining to salvage the project It is currently under new direction The new technical advisor comes from the Canadian credit union movement *Des jardins*, and appears up to the task of putting the project back on tracks CARE/BRK does not know exactly how much it has lent out, nor how much it has recovered A recent audit suggested that half of their outstanding loans are unrecoverable Current management estimates that this number could be as low as one-third

AFELEN is a project of the European Development Fund AFELEN's niche, small and medium enterprises, is filled by commercial banks in most other countries in the region and the world AFELEN'S average loan size is 30 million F CFA it is clearly not a small- or micro- enterprise lender As of the end of 1994, it had made 526 loans totaling 1.9 billion FCFA AFELEN does not require guaranties of 100% and only requires 10% co-financing While its loan evaluation process is sluggish and probably ill-suited to some of its applications, AFELEN is responding to a clear demand for a sector unable to find sources of financing in Niger

The informal financial sector

The informal financial sector in Niger has been described in earlier studies, [Graham 1990, Creevey et al 1995], and therefore will not be addressed in full detail here It is vibrant, creative, and sustainable Because informal financial transactions are highly dependent on personal relationships generally linked to trade, they are less effective at mobilizing excess liquidity for production or transformation activities The 1995 study of rural financial institutions in Niger found money-keepers

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

offering both short and long term savings programs for their savers. Some savers participated in a Mecca savings club by depositing funds on a regular basis for several years as a way to save enough money to go to Mecca. When the saver had accumulated enough funds the money-keeper would make all travel arrangements, buy tickets and send the saver to Mecca. This capital was reinvested by the merchant at no interest for several years. Most informal credit finances trade activities.

Cash savings in the informal sector are either mobilized by tontines, and money keepers or held in cash or invested in livestock or other assets. Rural households tend to keep savings in cash for anticipated needs and emergencies in the short term. Savings maintained for over three months tend to be placed in livestock. These investments generally yield a positive rate of return, higher than passbook savings accounts, but there is also downside risk of drought. During periods of drought the returns to livestock production fall, and households shift their savings out of animals and into cash or other more stable assets.

Credit in the informal sector is generally linked to other transactions. Credit is rarely granted in the form cash, except when it is given in the form of advances to agents to purchase commodities as in the case of the skins and hides subsector. Because allocation of informal credit is unable to depend on more formal financial and character analysis, it is highly dependent on the personal relationship between borrower and lender. While these personal relationships effectively reduce default risk, they make it difficult to mobilize surplus from one area to another, without passing through a long vertical chain of trader-lenders.

a Viability and Potential of the Financial Resource Base

There is enough excess liquidity in the financial sector in Niger to justify ending all projects that capitalize loans funds with donor contributions without addressing the factors that constrain the mobilization of indigenous liquidity. While projects that provide loan funds are an important stop-gap solution, the constraints to mobilizing indigenous liquidity must be addressed. Estimated liquidity in the informal sector ranges from 1 to 5 billion dollars. This combined with the surplus in the formal sector, is sufficient to finance a level of economic growth that can stay well ahead of population growth. Yet most of this liquidity is immobile, hidden in households, invested in livestock or other assets due largely to a lack of available institutions in which to deposit their funds, and a lack of confidence in those that do exist.

Most Nigeriens have little or no access to financial services. Less than five percent of the population of Niger has access to formal or semi-formal financial services and less than two percent to loans through those institutions. Only the informal sector reaches a significant percentage of the Nigerian population.

Real and sustainable economic growth will require a major expansion of both the level and the outreach of financial services. If the semi-formal and formal financial sector are to have a significant impact on accelerating economic growth, they are going to have to begin to reach the

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

number of people now being served by the informal sector⁴⁹ In order for the financial sector to be able to finance real per capita economic growth, significant expansion of semi-formal and formal sector financial services will have to occur This expansion will require a ten fold increase in donor funds for rural and MSE lending activities⁵⁰, or a significant mobilization of formal and informal sector liquidity for productive It is unlikely that the former will occur, so regardless of the obstacles, the latter is the only viable choice

The nature of the task should not be underestimated The constraints to efficient mobilization of surplus for productive investments in Niger are many The formal sector has shown neither the inclination nor the ability to manage a micro-, small- and rural enterprise lending program All financial institutions interviewed lack the skills or commitment to realize significant growth

Without growth in demand for loans these institutions will have no incentive to mobilize savings Because banks are already suffering from too much liquidity, they have no interest in mobilizing local surplus Finally, while potential to grow and become sustainable exists among a few NGOs there is no assurance that any of the MSE and rural financial service programs will ever be fully operationally self-sufficient, let alone sustainable in the long term Achieving this, at least among the USAID programs will require more guidance and direction particularly for the BRK and the SICR than in the past

For the moment all three of the commercial banks contacted in Niger seem operationally self-sufficient⁵¹ Their long term viability is brought into question by policies that advocate downsizing rather than learning how to lend The incentive for USAID to work with them is that they are faced with a do or die situation regarding the expansion and diversification of their lending portfolio, and that they have more surplus liquidity on deposit, than all of the donor funded credit projects combined

The liquidity in the economy necessary to finance continued and accelerated economic growth is in place In 1994 official estimates of growth in the agricultural sector were around 8 to 8.5% While much of this was due to a high rainfall year, and probably undercounted, there is no reason to believe that as households shift more of their resources into higher return activities that this level of growth cannot be maintained and even increased given high rainfall variability It is well accepted that if high growth rates can be maintained over several years the economy is unlikely to fall back

b Principal Constraints to Improved Delivery of Financial Services in Niger

from the total of USAID Cooperation Française Fonds Européen du Développement GTZ and SNV credit project clients multiplied by figures that these donors account for at least 80% of all borrowers, including those to the formal sector

increase clients of formal and semi-formal financial institutions is an arbitrarily selected figure A tenfold increase would mean that 50% could have access to savings services and 20% of the population access to credit Assuming that the majority of this increase would take place in the more active regions of the country this expansion should be sufficient to sustain growth

Bank the BCN banque Commercial du Niger which is joint Nigerian and Libyan owned was not contacted during this study They are the main banks and largely finance Libyo-Nigerien trade

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

Development of financial services requires institutions capable of offering a broader set of financial services for a broader set of activities than the informal sector provides but to a population as large as that served by the informal sector. Informal financial services are not particularly adapted to moving funds from surplus households to deficit ones for a broad set of activities.

If the financial sector in Niger is to play a serious role in the financing of real economic growth, it will need to mobilize the considerable liquidity that exists both in the informal and semi-formal sectors for investment in a broad set of production and transformation activities. Given the presence of a formal financial sector and numerous semi-formal donor funded enterprise development initiatives, what are the constraints in Niger that keep this from happening on a broader scale?

Significant growth in the financial sector in Niger is impeded by institutional constraints and a hostile to enabling environment. These constraints seriously limit both the supply of and demand for financial services in Niger.

Institutional Constraints The principal institutional factor constraining both the supply of financial services and real demand for those services is a lack of training. Lack of training of commercial bank and NGO personnel severely constrains the ability of these institutions to expand their services or even offer any services to rural small and microenterprises. The lack of trained personnel in banks and NGOs raises the costs of assessing borrower risk, and the activity to be financed. Much of the CARE/BRK difficulties during their rapid expansion phase has been due to an inadequately trained credit staff. Inadequately trained CLUSA/SICR agents inhibit expansion of services to non-collective entities. The Bank of Africa, and SONIBANK both cite a lack of trained personnel as a reason why they are adverse to developing or expanding a rural and MSE lending portfolio.

On the demand side of the portfolio an inadequately trained urban and rural population limits real demand for financial services. Serious expansion of financial services will require borrowers or borrowers representatives to be literate and numerate in at least a local language so that they can communicate in a way that is meaningful to commercial bank and NGO credit officers.

Enabling environment constraints In spite of important progress made towards liberalization and privatization, constraints to enterprise creation and enforcement of financial service contracts remains the most significant constraints to both the supply and demand for financial services. On the supply side the complicated, time consuming and costly procedures for enforcing collateral contracts seriously raise the cost of extending credit and the risk of default. On the demand side laws, regulations and abuses by government officials of licensing rules, raise the costs of starting up and operating a business in the formal sector⁵². This constraint continues to keep most enterprises both small and informal. Despite numerous strengths of informal enterprises particularly their dynamism, constraints to formality are also constraints to growth.

The high cost of enforcing collateral contracts encourages certain borrowers to default knowing that the lender is adverse to initiating contract enforcement procedures. Often the liquidation of collateral

and Mali have both recently revised section 47 of their Labor Codes restricting the power of the Service de Main d'oeuvre and the Inspectors begin to finance enterprise creation in the region they will place their plants in countries with the most favorable enabling environment makers are unable to be proactive in the region. Niger will be passed up for investments by other countries in the region.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

will not even pay for the costs of the collateral contract enforcement after paying court costs. The BIAO, SONIBank and CLUSA/SICR have incurred high costs seizing and liquidating assets from defaulted borrowers. There seem to be several factors contributing to this problem:

- **BCEAO and GON rules assume usurious lenders and victimized borrowers** The current laws concerning interest rates, credit contracts and procedures required to enforce those contracts severely constrain the lender and by consequence the supply of credit funds. Key constraints are interest rate ceilings, all repossessions must be evaluated and authorized by a very slow legal system, no collateral may be seized if it is critical to the livelihood of the borrower (i.e. land, machines and equipment if they are used as the principal means of earning income may not legally be used as collateral)
- **borrowers with considerable political clout in regions are able to slow court proceedings and prevent competitive bidding on liquidated assets** Staff at one of the commercial banks reported that the time it takes to seize and liquidate an asset of a notable was two to five times as long as for a borrower with no political clout. When CLUSA tried to seize assets particularly vehicles from the director of the USRC⁵³ in Zinder the local magistrate notified the director 120 days in advance of CLUSA's intent to repossess. Not surprisingly the vehicle disappeared before it could be seized.
- **government regulations severely limit assets that can legally be used as collateral which tends to disfavor the rural and micro enterprise borrower** While some excluded items make good sense, others are questionable and restrict the supply of credit. Among assets that Nigerian courts have refused to seize are one cow, two sheep, two goats, land used to farm cash crops because farming is the principal income source of the borrower, and four sewing machines because the borrower made his living sewing⁵⁴. Following this logic it would be inadvisable for anyone to lend or lease to a borrower for equipment or machinery if the borrower could demonstrate that said equipment contributed to their major income source.
- **delay from initiation of collateral contract enforcement to liquidation of assets takes over 270 days** Of the commercial banks only the BIAO has been around long enough to have accumulated an experience in recovering bad loans. The chief credit officer there said that loan recovery takes at least nine months from the day the bank initiates recovery procedures against the defaulted borrower to the time the asset is liquidated. The BIAO holds numerous accounts with seizable assets that have already taken over a year without any result.

2 Constraint Summary

us Regional de Cooperatives

I Djibril 1995 *Les Relations Contractuelles en matière de crédit accordé par les structures financières semi-formelles* Mission Française d'action culturelle Niamey

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

The liquidity in the Nigerien economy is far greater than the amounts that will be granted by donors. Most of this liquidity is not mobilized in the formal or semi-formal sectors of the economy. Constraints to the mobilization of these resources are

- a mistrust by banks of borrowers, and by savers of banks due to almost a decade of financial institution failure, and high borrower default rates,
- a lack of adequately trained financial institution staff in the analysis of economic activities, and the expansion of financial services to rural and microenterprises and,
- a hostile enabling environment favors defaulted borrowers over lending institutions, and creates obstacles to enterprise creation and operation

Real per capita economic growth will require that the financial sector reach more than 2% of the population. Today neither the commercial banks nor the NGOs are poised to meet this challenge. Commercial banks facing a hostile enabling environment have decided to downsize rather than find investment opportunities for their excess liquidity. The NGOs stuck in the belief that raising interest rates are both usurious and a constraint to expansion of demand do not know how to grow. Both the commercial banks and the NGOs lack trained staff capable of managing significant growth without taking on too much risk.

The glass is also half full. The commercial banks know that downsizing is not a sustainable long term strategy. Since they have excess liquidity they might be more amenable than ever before to participate in dialogue on changing the policy environment, allow for greater leverage on guarantee funds, and receptive to having USAID finance bank staff training so that banks will be better able to assess rural and MSE loan risk.

AID has little influence over other donors' NGO projects, though its role as a leader in rural and MSE finance coordination should not be downplayed. AID/Niger can assist its own projects, particularly CARE/BRK and CLUSA/SICR, in accessing information on cutting edge MSE technologies, identification of constraints to growth and assistance in the alleviation of those constraints.

In the enabling environment field AID/ Niger can continue to assist the GON in making the policy and enabling environment changes necessary for growth.

3 Supply and Demand for Financial Services

Despite considerable research on the financial sector in Niger, some fundamental questions about the market for financial services have yet to be addressed. The all too common donor solution of capitalizing rural and micro-enterprise finance programs, is only justified where there is no excess liquidity in the economy or where the institutional obstacles to mobilizing that liquidity are so great as to not warrant efforts to mobilize it. Without a clearer understanding of the existence and nature of supply and demand for savings and credit including their relative elasticities, it is difficult to determine what types of interventions will allow for significant expansion of financial services. What is clear is that significant expansion of financial services is the only sustainable way for Niger to realize the level of economic growth needed to remain ahead of population growth.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

This section will argue that

- Demand for loan funds is less sensitive to interest rates than commonly thought,
- savings is relatively insensitive to interest rates paid on deposits,
- sufficient liquidity exists in both the informal and formal sectors and that no capitalization of credit funds is necessary,
- institutional and enabling environment constraints are the principal constraints to expanding both supply and demand for financial services,
- lifting interest rate ceilings will have a negligible impact on the supply of loan funds

At current interest rates the demand for loans exceeds lenders willingness to lend. The BIAO and AFELEN have a loan approval rate of 16 and 17 respectively. At the same time lenders complain of a lack of bankable activities. What this suggests is that at current interest rates criteria for a bankable loan are fairly restrictive. *Ceteris paribus* this would argue for a relaxing of interest rates. The impact of a relaxation of interest rates will certainly be to increase the quantity of funds that banks will be willing to lend. It will likely also decrease the amount of funds that demanded by borrowers. The quantity of additional available funds, and the reduction of funds demanded is a function of their relative elasticities, or sensitivity to price.

Changing price however is not the only way to increase the level of financial services. Another way is to alleviate the supply and demand constraints to the effective mobilization of Niger's surplus liquidity. Which strategy is appropriate—change interest rates or alleviate constraints?

The answer depends on the relative elasticities of supply and demand for financial services and the degree to which both supply and demand are constrained.

A final way to increase the level of financial services is to increase the supply of loan funds by bringing in external sources of capital. If these funds are made available at subsidized rates they should have an even greater impact on quantity of funds demanded than if they were priced at a level that covered the costs of offering those funds. Given that current donor loan funds do not reach two percent of the population of Niger, it would take a Herculean increase in donor funds to have a significant impact on the economic growth.

If the financial sector is to play a role in financing real economic growth it will have to reach a significant percentage of Niger's population. Since donor funds are clearly insufficient to this task, the questions to answer are

- is there adequate liquidity in the economy to finance economic growth and,
- what is the appropriate strategy to mobilize that liquidity, interest rates, constraint alleviation, or both?

Interest rates and the demand for financial services

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

A number of interviewees contacted during this study suggested that keeping credit costs down was essential to expansion of loan demand. Under this supply led belief, marginal increases in interest rates will create a significant constraint on the quantity of funds demanded. Proponents of this belief argue that demand for loan funds is very elastic, small changes in the cost of funds will have a large impact on the amount of funds demanded. Thus to stimulate demand the appropriate response is to hold down the costs of funds.

This argument is counter intuitive. In the operation of an enterprise, interest rates make up part of the operators cost of capital. The other part is the economic operators opportunity cost of his or her own funds invested in the enterprise. If we assume that the economic operator uses none of his or her own funds (a situation only found where interest rates are highly subsidized, and lender discipline lacking), then a 10% increase in interest rates will result in a 10% increase in financial costs, a 25% interest rate increase will result in a 25% increase in financial costs, etc. If we assume that borrowers only have one activity in which they will invest, it is logical to assume that borrowers will continue to borrow as much as they can until the marginal returns from an additional unit of loan funds is less than the cost of those funds. Thus demand for loan funds is insensitive to interest rates up to the point where the returns from the activity fail to cover the interest rate costs.

In reality economic operators have multiple investment, and debt and equity mix choices. This suggests that when interest rates rise above marginal returns from an additional unit of loan funds invested, the borrower can either invest in a more profitable activity, or increase decrease the overall financial costs of an activity by increasing the level of equity financing.

As borrowers shift their resources, including debt, to more profitable activities, they should again be relatively indifferent to the cost of funds until the returns from new investments fall below the cost of funds. This phenomena has been observed by the CLUSA/SICR program. As interest rates and service charges rose, there was a dramatic shift away from a relatively less profitable activity of cereals storage to more profitable activities of cash crop production and livestock raising. Loan demand did not fall, rather it increased.

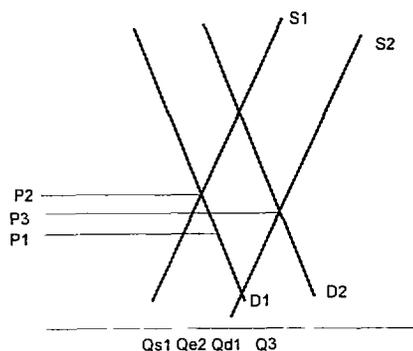
At the extreme, case where operators have no more profitable activities to invest in, they can reduce the financial costs of an activity by replacing debt capital with equity capital. The higher the value that the investor places on her or his own funds the fewer units of equity capital will be used to replace a decrease in debt capital. Under this assumption an one unit increase in interest rates will be offset by something less than a unit decrease in debt replaced by a unit of equity capital.

This suggests that the demand of loan funds is somewhat sensitive to interest rates. The ability of investors to shift to more profitable activities as interest rates rise, and invest their own funds when the opportunity cost of their own funds is less than the interest rate makes demand for loans relatively insensitive to price. Demand for loan funds is relatively inelastic. This observation is born out both in developing and developed countries [Yotopolous]

Interest rates and the supply of financial services

Defenders of the elastic supply of funds argument argue for the lifting of interest rate ceilings would enable banks to charge more for loans enabling them to pay savers more for their funds, thereby

DRAFT USAID/NIGER Economic Reform and Microenterprise Program



attracting a greater supply of savings, which could be re-lent. If you want to increase the supply of loan funds you must pay savers more for their money

Are savings rates sensitive to interest rates on savings? There seems considerable evidence to the contrary. Numerous studies on savings patterns in developing countries suggest that people save cash place a high value on accessibility and access and that they are relatively indifferent to interest rates. In fact in many contexts, the saver accepts a negative rate of return for a secure and accessible place in which to save [Magill, Kula, Creevey et al]. This indicates that up to some level savers are completely

indifferent to interest rates, so long as their money is secure and accessible

How do savers accumulate savings in a society where so few institutions offer both security and accessibility of funds? Evidence from Niger suggests that most surplus is invested in livestock. For most savers it is too risky to accumulate large sums of cash, so that as the cash that they accumulate exceeds their short term needs they begin to buy livestock. Livestock as a form of savings is held until the returns from livestock production fall below those available those from cash savings. This hypothesis was well noted in Burkina Faso by *Des jardins* during the drought years of '84-'85. As the price of livestock fell due to feed shortage and the need for households to liquidate their stocks to feed their families, the level of cash savings in village credit unions rose throughout the drought period. At the end of the drought savings were withdrawn and reinvested in livestock as the returns to livestock production rose.

So long as the risk adjusted returns to livestock production are greater than those available for cash savings households tend to invest the bulk of their surplus in livestock [Hopkins, 1993, 1995, Hopkins, Reardon 1993]. This suggests that savers are highly insensitive to interest rates. They save in cash what they plan on needing in the short term and put the rest in livestock as long as the returns to livestock are higher than those from cash savings.

What then is the impact of interest rates on the level of financial service provided?

Figure E 3a illustrates the relative impact of changes in interest rates and outward shifts in both the supply and demand for financial services in Niger. P1

is the *status quo*, an interest rate with a ceiling, P2 is what the interest rate would be in the absence of a ceiling *ceteris paribus*, P3 is the interest rate given an outward shift in both supply and demand for financial services from D1, S1 to D2, S2

Qe1 is the quantity of loan funds supplied at P1, Qd1 is the quantity of loan funds demanded at P1, Qe2 is the quantity funds available at the equilibrium price P2. Q3 is the quantity funds available under the supply S2 and demand D2

As the figure illustrates, when supply and demand are relatively inelastic, shifts in price have a relatively small impact on the quantity supplied or demanded. Under the current policy of an interest

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

rate ceiling, there is a shortfall of supply because banks are only willing to lend Qs_1 , while at that interest rate there is a demand for Qd_1 . This is the situation in Niger today, where banks complain of a lack of bankable activities (given the interest rate ceiling), and borrowers complain of a lack of loan funds.

If the interest rate ceilings were lifted but the enabling environment remained unchanged, the interest rate would rise to P_2 , and while the quantity of loans demanded would fall, the quantity of loans made would rise to the equilibrium Qe_2 . But, because both supply and demand are relatively inelastic, the relative change in quantity supplied or demanded with a change in interest rates is relatively small. Thus lifting interest rate ceilings given the current enabling environment will have only a marginal positive increase on the supply of credit. This hypothesis is supported by representatives of the BIAO and the BOA who have stated that it is not the interest rate that prevents them from lending but the risks and high costs of loan recovery [Kula 1993, 1995].

Returning to Figure E3a, a much greater impact on the level of financing would occur if both the supply and the demand for financial services could be shifted outward to S_2, D_2 . With an outward shift in the supply and demand curve for financial services, total loan output could substantially increase while interest rates fall. This phenomena can be observed by comparing Niger with Mali. Both countries are in the CFA zone. Both are Sahelian. Mali has at least 5 commercial banks while Niger only has three. But the major difference between the two countries is that there are institutions and structures that create a much more favorable environment for lending in Mali, than exists in Niger⁵⁵. In Mali the level of bank lending is over 12 times as high, the interest rates are lower and no guarantees are required.

Potential Supply and Demand for Financial Services

While it is clear that shifting supply and demand outward will have a greater impact on overall loan volume than a change in interest rates, it remains to be determined how far the supply and demand curves can be shifted outward. By alleviating the principal constraints to increased financial services, loan demand will increase and banks will respond by creating incentives to transfer savings from livestock to term deposit accounts.

This study did not attempt to estimate the demand for loans under a scenario where the constraints to enterprise creation are lifted and borrowers are better able to communicate with bankers in a manner that increases trust.

Ignoring the impact of subsidized loan funds on building sustainable financial institutions, the only way to do this for an institution whose goal is to reach operational self-sufficiency, is to borrow funds at subsidized rates. If a financial institution has access to increasing supplies of funds at subsidized rates in order to meet the growing demand for funds this is not particularly problematic in the short and mid-term. The fickle affections of donors and the limited depths of their pockets makes this a risky long term growth strategy.

very effective cotton marketing board which greatly lowered default risk to lenders. The level of organization and literacy of at least the *Associations Villagoises* in Mali is much higher than among their counterparts the *Groupements Mutualistes* in Niger. While exercised in comparing across countries with many uncontrolled variables, it should be noted that commercial banks in Mali lend over 12 billion CFA francs and MSEs in Mali without any external guarantees compared to less than 1 billion in Niger, with an almost 100% guarantee.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

The "cheap credit drives demand" argument is both counter-intuitive and refuted by experience in Niger and elsewhere. The argument assumes that demand for credit is relatively elastic and that a rise in interest rates will decrease significantly the demand for loans. First All economic agents who have access to capital make rational choices about the ratio of debt and equity capital to invest in each of their activities based on the factor costs of each. As interest rates rise relative to the opportunity costs of the entrepreneurs equity capital she will reduce the debt/equity ratio of the activity financed before reducing the level of financing for the activity. The Private sector banks and semi-formal lenders must borrow funds, or attract investors if they are to grow. Banks generally pay a higher rate of return on equity capital than on debt capital so are forced to lend from debt capital as much as possible. The ability of entrepreneurs to mix equity and debt capital makes the demand for credit more inelastic than the supply of credit.

a *Estimated Supply of Savings in The Nigerien Economy*

The supply of savings can be expressed simply as surplus in the economy multiplied by the savings mobilization rate. The savings mobilization rate should not be confused with the marginal propensity to save which is the percentage of income that is saved. Thus if the per

This study posits that marginal propensity to save is and must be relatively high in the Sahel. Contrary to donor bias which posits that people in the Sahel are too poor to save, it is posited that Sahelians do and must save in order to be prepared for future and inevitable droughts. Substantial anecdotal evidence exists to corroborate the hypothesis that Sahelians save. Hopkins et al [1993] estimate that Nigerien households save on average 6% of their annual income. Given that most Sahelian households expect a one to two year drought every ten years households would need to save closer to 25% of their annual income. This larger figure has been anecdotally corroborated by CLUSA agents [Kula 1995]

The supply of savings in any given time should be the marginal propensity to save multiplied by income raised to the exponent of the number of years since households have been accumulating savings. In the case of this study 1988 is estimated as the first year at which at which savings accumulation recommenced after the drought years of the '80s. Two means are used to estimate excess liquidity in economy 1) estimated savings rate, and 2) observed marginal propensity to save

Estimated Savings Rate Using the conservative savings rate figure proposed by Reardon [call for citation 1995] of 6% of annual income, and assuming zero debt at the end of the last major drought (87-88), savings is estimated as **population x average income per capita x (1.06)⁷**, the savings accumulated at 6% of annual income over seven years. Average household income is estimated at \$386 (\$290 GNP/per capita). Under this approach liquidity is estimated at 3.5 billion dollars. This approach is likely conservative because it assumes that there official statistics count all wealth and that there is no value added generated by the unaccounted informal sector.

Observed Marginal Propensity to Save This estimate is based on the WOCCU observed average annual savings surplus per household of \$30 per credit union member. The observed savings rate multiplier is calculated as follows **average surplus per income earner (\$30) x population in Niger**

DRAFT USAID/NIGER Economic Reform and Microenterprise Program
(9 million) x ratio of active to inactive household members (1 3 1) x 7 (number of years since 1988 Household figures are drawn from Hopkins and Reardon [1993] Estimated accumulated liquidity since 1987 is 1 1 billion dollars

Formal sector surplus In September 1993 the commercial banks surplus was estimated at 44,4 billion FCFA (\$88 million US) Prudent financial practices and banking regulations prevent the majority of these funds from being mobilized for loans Even if 25% of banks deposits were kept in reserves (this is unlikely because banks are no longer able to deposit these reserves in the central bank lending window), this would leave 66 million dollars available for loans without mobilizing any informal sector surplus This \$66 million is both far greater than the sum of all donor financed loan funds, and at the same time a small percentage of the estimated surplus in the economy

Regardless of how surplus savings in the economy is estimated, or whether one wishes to ignore either the formal or informal sector surplus, the level of liquidity in Nigerien economy makes the sum total of donor contributions to finance rural, micro and SME activities look like a drop in the bucket Strategic Objective 2 (SO2) with its emphasis on economic growth, cannot continue to focus on drops in the bucket activities

The problem to resolve is how to alleviate the constraints to this surplus-being mobilized for productive investments, and how to deliver it through sustainable financial institutions

a Estimated Costs of Providing Credit

Not a single financial service project visited in Niger priced their loans a function of the costs of providing those loans A number of semi-formal institutions in Niger claim to be charging market rates of interest Generally these rates range around 14%- 24% Some are calculated on the declining balance, others on principal borrowed There are two weaknesses with pricing loans at the "market price " The first is that there is no market for rural financial services 98% of the population has no access to loans, the handful of NGOs who provide credit, do so at significant subsidies⁵⁶ The second reason that market price is irrelevant is that the market price of providing loans has bearing on the actual cost of providing those loans On the contrary it is the actual cost of providing rural and MSE loans that will eventually determine the market price

None of the financial service projects visited has a sense of how they need to price their services in order to become operationally self-sufficient and ultimately sustainable While several require that their clients provide business plans not a single institution visited has their own, All three of the AID funded projects were aware of this problem and had expressed an need for assistance in determining their actual costs

The costs of providing loans are cost of capital, operating costs, including cost of ensuring prudent practices, cost of bad debt losses

Appendix xx is a detailed draft model to calculate the costs of providing loans

edit projects visited are dependent upon significant subsidies either in the form of subsidized sources of loan funds or operating cost s credit unions are operationally self sufficient but continue to depend on training monitoring and external control subsidies

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

E3b Analysis of Demand for Financial Services

It is difficult to estimate future demand for loans within the scope of this assignment. It is recognized that there are numerous production and transformation activities at the farm and microenterprise level that provide returns well above the cost of borrowed funds.

It can also be assumed that as the number of households that have access to credit increase, the number of loans, financing any given activity will also increase.

[to be developed]



4 Institutional Capacity to Provide Savings and Credit Services

The institutional capacity to provide financial services in Niger is very weak. Niger has fewer commercial banks (4) than any other country in the Sahel. They lend less for enterprise creation than any other banks in the UMEOA region. Most NGO's provide loans services either cash or in-kind to their clients. Most of these are not sustainable, highly inefficient and undermine the development of serious rural and MSE financial service institutions. The informal financial sector takes up the residual not met by formal and semi-formal institutions. It is the major provider of financial services in Niger. The informal sector is dynamic, offers many savings and loan services, operates with low transaction costs and is sustainable. It is not however an efficient form for moving surplus liquidity for production and transformation activities.

Popular confidence in financial institutions is very low. Since the end of 1992 savers have lost 28.2 billion F CFA in deposits from four failed banks. This explains part of the considerable surplus savings in the economy while bank deposit rates are low. The other part of the explanation is that commercial banks are unable to invest deposits where they can provide a return on those funds. Much of the rapid growth of the credit unions (CPEC) may be attributed to pent up demand for savings due to lack of confidence in the banking system.

a Formal Financial Institutions

Formal financial institutions have and continue to be urban and industrially based, providing few services to rural and smaller scale clients. Some like the BIAO, have functioned until recently as investment clubs for their major shareholders. At the end of 1993, twenty BIAO clients held over 51% of all deposits. Bank loans to the private sector are largely for trade and public work projects. Banks generally require loan guarantees of 100%. The major source of income for commercial banks in Niger has been their deposits at the central bank, the BCEAO.

This is now changing. The BCEAO to encourage bank lending into the economy severely limits banks' capacity to invest funds in the international money market window. The commercial banks in Niger have not yet developed lending techniques adapted to the changing policy and economic environment. Because of this, Nigerien commercial banks have a serious

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

excess liquidity⁵⁷ problem. The short term bank strategy is to downsize by discouraging savings. The banks know that they cannot continue on this path and survive.

Commercial bank resources have been shrinking at a rate of about 10 billion FCFA per year since 1992. Most of this decrease was due to the closing of Balinex (6.5 billion cfa), Credit du Niger (5.2 billion cfa) and a panic earlier this year at the BIAO (14 billion cfa).

The remaining banks in Niger are very conservative and will be slow to change. Out of 18 banks and finance companies organized or in operation since 1978 only four banks and two finance companies still exist. The enabling environment for new business creation constrains demand for financial services. Policies and regulations concerning repossession and liquidation of borrower assets increase lending risk and therefore decreases banks' willingness to lend.

b Semi-formal financial institutions

The semi-formal financial institutions in Niger are those institutions with a legally recognized status that the formal banking authorities do not regulate. In Niger, donors finance most of the semi-formal institutions. None of them is sustainable, none of them can cover all of their costs through fees or interest generated. Of all of the institutions encountered only AFELEN, the BRK, the SICR, and the CPEC credit unions have any chance of becoming sustainable. AFELEN is an EEC funded small and medium enterprise lending project, the remainder is USAID funded. While definition of what is sustainable vary, there is enough in common among the above four projects to discuss them in detail.

If the semi-formal institutions are to become serious players in economic development in Niger, there must be a major shift toward cost recovery, expansion and efficiency among these institutions. They must further either link to existing formal sector institutions to access the capital needed for growth, or develop strong systems to mobilize savings as with WOCCU. Most of them will clearly not be players in any economic growth in the future because they are not committed to the principles that will enable them to achieve significant outreach.

Yet the semi-formal institutions have advantages upon which can be capitalized. The better of the largely donor funded semi-formal financial institutions have several advantages over banks in offering services to the geographically dispersed MSE and rural sectors. Many of them have learned techniques to ensure high loan recovery rates. A few have cost structures much lower than the banks with relatively highly trained credit personnel. These institutions have a comparative advantage over the commercial banks in generating and managing a rural and MSE loan portfolio. WOCCU is highly effective at mobilizing small savings. If its current growth rate continues, WOCCU will be competing with the commercial banks for deposits.

Women are the principal victims of highly subsidized non-sustainable financial services. There is a growing body of evidence in Niger and elsewhere that proves that women's economic activities are profitable, and that they are able to pay the full costs of obtaining financial services. Women are more likely to have access to funds priced at full cost than where significant subsidies are involved.

just underwent a panic in which 14 billion F CFA were withdrawn. They no longer have an excess liquidity problem. AS they rebuild d
lem will arise again unless they can develop means to expand their loan portfolio

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

[Kula 1995, Rhyne Otero 1993, Weidemann 1992] Rather than working to lift whatever barriers to entry or constraints that may be gender based, many donors continue to compensate for rather than alleviated these constraints

One way this is done in Niger is to offer women subsidized credit for working in externally imposed cooperative or collective groups. Neither the groups nor the credit is sustainable. The women who are unfortunate enough to participate tend to be marginalized rather than integrated into the nascent services that are trying to become sustainable. Because they have short term access to cheap credit,⁵⁸ members of these groups often turn away the opportunity to access credit from financial service projects that charge higher rates and have a better chance of becoming sustainable.

From 1989 to 1991, CLUSA spent considerable energy trying to convince village leaders, (male) that the women in their villages should be include in loans to members. The success rate at these efforts was close to zero [Silcox and Kao 1993]. When the interest rates were raised from 11% to an effective 16.6%- 17.5% and loans were clearly not gifts the problem of marketing to women ceased to exist. Men only controlled access to credit when it was subsidized, rationed and a privilege. When the costs went up, the co-financing increased, and serious collateral required women were no longer obstructed from applying for loans. In 1995, women's groups represented 38% of CLUSA/SICR clients, and 34% of current loans.

(a) Maradi Microenterprise Development Project

The Maradi Microenterprise Development Project currently operating as the Bankin Raya Karkera (BRK) in Maradi, Niger began in 1988 as part of USAID's Small Enterprise Activities Development Project. The second authorization is entering its last year. Committed to the creation of jobs through small enterprise employment, CARE agents have found it more difficult to make loans for enterprise creation, or working capital than for commerce.

CARE/BRK charges an interest rate of 18% of lent principal, on loans. BRK sporadically collateral but is not uniform in the collection, appraisal, or securing of that collateral. According to the current expatriate advisor, 80% of loans made by the BRK were for commerce. Detailed analysis of the CARE/BRK project can be found in audits conducted in the last year [Horus 1994, Tari 1995].

The good news about the CARE/BRK project is that it is salvageable. The bad news is that despite impressive favorable attention, the CARE/BRK project is in a shambles [cite IMCC paper with McCaine, Rhyne and Christenson]. Independent audits suggest that almost half CARE/BRK's outstanding debt of 661.2 million F CFA is unrecoverable [Tari 1995]. CARE/BRK's current director is much more optimistic and expects to be able to recover two-thirds of their outstanding loans.

According to the most recent audit, these losses are attributable to

- no system of internal control to track loans,
- no management information system (MIS),
- no system for writing off bad loans,

of subsidized credit needs further research. If borrowers receive subsidized credit in kind for input purchases and are therefore unable where they are cheapest, the non interest costs of these transactions may be enormous. An example was cited of a GTZ project that ration of *charettes* which GTZ commissioned and provided. While loan rates were cheap, the charettes cost two times the market price.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

- no central management of individual loan portfolios,
- Inadequate training of loan officers,
- lack of supervision of individual agents,
- lack of uniform application of sanctions and controls,
- opportunities for loss and embezzlement due to an inadequate monitoring system

To this it is important to add that until now the BRK never had adequately trained directors. All this is changing. BRK is now under the capable management committed to reviving the BRK program. CARE/BRK has one billion F CFA in assets, (including questionable ones), and almost 200 million F CFA in capital. CARE has developed an internal document, based on earlier audits, which outlines a program for change. If the proposed reforms are followed, CARE can probably put the BRK back on track with sound MIS systems, internal and external controls, and better trained more professional staff.

CARE has some difficulty with the Service de Main d'Oeuvre, who have sued CARE for attempting to fire staff. CARE has been ordered to pay a six million F CFA judgments. Former abuses of the BRK by inadequately supervised staff requires that CARE use a stick as well as a carrot. USAID may need to intervene so that the same policy and regulatory constraints that hinder enterprise creation do not also hinder NGO operation.

If an NGO financial institution is not free to hire whom it wants, and fire whom it needs to while backed by the GON, USAID, and an international NGO, it will have serious difficulties accomplishing this most basic and essential task when they are Independent of the donors. The BRK is a project owned by the GON, implemented by CARE and financed by USAID. A case could and should be made that any judgments against the BRK are the responsibility of the GON. If the GON were held co-responsible, for judgments against an implementing NGO, there are two possible outcomes. The first is that these ridiculously large judgments would stop, the second is that the GON would be more supportive of sanctioning the Service de main d' Oeuvre, and the civil courts⁵⁹. USAID, the GON and CARE, not BRK management, need to ensure that the BRK and other NGOs can fire incompetent staff as needed. (See Tom's section on the Inspection de Travail and the Service de main d'Oeuvre)

Today the BRK cannot be considered a viable semi-formal financial service provider. If held to its plan for change, supported in its need for training, external controls, and occasional donor strong-arming, it has a strong chance of recovering. CARE/BRK is considering becoming a mutual savings and credit institution under the proposed revised banking law⁶⁰.

(b) CLUSA/SICR

Senegal have already passed laws limiting the powers of the Service de Main d Oeuvre making it much easier for employers to hire a

agement has visited ACEP in Senegal and is advocating adopting a similar approach. Unfortunately the reformed banking law is much rights and responsibilities of mutual (cooperative savings and credit societies) than for non-cooperative ones. The impact of this ambiguous societies can be observed in Senegal where dozens of institutions regardless of their prior mandate are reorganizing as mutual saving too early determine what the consequences are of trying to fit square pegs into round holes are for financial institutions but it is clearly rendered by making much easier to organize as a cooperative society than as a private financial service provider.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

The CLUSA/SICR (Service D'intermediation En Credit Rural) project operates as a broker between commercial banks in Niger and rural cooperative organizations. The banks function as wholesalers of loans. The cooperative groups act as retailers of loans to their individual members. This arrangement enables members of the cooperative group to access much smaller loans that the banks could make directly. It enables the banks to make loans for rural and MSE activities at a lower cost than they could alone⁶¹. The cooperative groups have a legally recognized status as a *personne morale* and can therefore be held liable for any debts it incurs on behalf of its members in a Nigerien court.

CLUSA/SICR charges a service fee of 2% of the amount of the activity financed. Since cooperative groups are required to co-finance 25% of all loans, the actual service fee ranges from 2.7% to 3.5%.

The major strengths of the CLUSA/SICR program are its high recovery rate and transparent management. From 1991 to 1994 the recovery rate on bank loans managed by CLUSA exceeded 94% at ninety days [BIAO 1995]. In 1992 and 1993 this rate surpassed 95%. In 1993, loan recovery at 90 days was 97.3%. As to loans both generated and recovered, CLUSA is the leader of the three AID funded rural financial service projects.

Encouraged by high recovery rates, SICR made several very large loans (4 totaling 80 million F CFA) to groups in the same area. These four loans defaulted⁶². Because they represented almost 25% of CLUSA's total portfolio, they have had a disastrous impact on the overall recovery rate for 1994 (87.9%)⁶³.

The SICR has a management information system that is both a strength and a weakness. In place since 1991, CLUSA's MIS has enabled consistent loan tracking since the inception of the SICR. This system, combined with management committed to transparency have, enabled the SICR to earn a solid reputation with the commercial banks as an institution capable both managing and reporting on a rural and MSE loan portfolio. Unfortunately the historic disinterest of the banking sector in rural, or small clients has made it difficult for the SICR to capitalize on its good reputation⁶⁴.

a lower operating cost structure than the banks. They have a staff trained in assembling and monitoring a rural and MSE loan portfolio. A better sense of the economic activities being financed and of means to collateralize rural loans that would not be acceptable to commercial banks. Detailed discussion of how the SICR is able to assemble, manage and recover a rural and MSE loan portfolio for less cost than the commercial banks [BIAO 1995].

differences of opinion as to why these loans defaulted. CLUSA/SICR's former national director, who approved the loan, attributes the problem to the current director. The current director correctly recognizes that any single loan representing 25% of the total loan portfolio presents a serious risk to the portfolio. In discussing the situation with SICR agents, it seems clear that both are right.

Information comes from CLUSA internal MIS documents furnished on request.

These findings suggest that Niger and its institutions should not be held to the way things have been. Unique opportunities exist for the strengthening and expansion of financial institutions to support real economic growth. Devaluation, liberalization and BCEAO reform all support greater opportunities for investment.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

CLUSA's management information system has become obsolete and needs to be revised or replaced. With several loan tracking software packages on the market, CLUSA/SICR should consider replacing their system and getting the necessary technical assistance to tailor a new system to their needs. At the time of this study the BRK was installing FAO's *micro banker* as its MIS system.

While the SICR has clear strengths, it has failed to set up policies needed to increase revenues, to lessen their dependence on the capital endowment they use to cover operating costs and to guarantee loans. Depending on growth projections, CLUSA/SICR needs to be charging a 6.5-7.5% loan management fee before it can begin to cover its operating costs let alone, build capital (see annex E).

CLUSA/SICR has a policy of compensating its agents based on loan recovery at a flat rate that fails to take into consideration, timeliness of repayment, risk exposure of individual loans and the size distribution of those loans. SICR has high delinquencies from zero to ninety days. Agents have been quick to expand their portfolios to make larger loans that increase risk to the overall portfolio. They have no financial incentive to recover unpaid loans once they achieve the minimum repayment rate to receive their commission. A multi-tiered system to motivate excellence in performance has been proposed but not adopted.

CLUSA/SICR's MIS system enables it to monitor loans, but is ineffective at tracking costs. This makes it impossible for SICR management to increase efficiency in controlling costs, or monitoring costs against revenues. CLUSA management does not have accessible information to calculate what percentage of their operating costs, administrative costs and total costs are covered by their fees. There are no periodic balance sheets and income statements, and subsequently the management value of these documents is Unexploited.

SICR management and staff need more frequent and ongoing training. This is also true for the BRK. Expansion of these programs cannot be realized with a staff that is not kept abreast of leading technologies in the field. SICR agents need ongoing training and follow-up in risk analysis, marketing of their services, cost containment, loan follow-up and recovery.

Finally, there are several operational conflicts of interest in the operation of the SICR. The first is a conflict about who SICR's clients are. CLUSA/Niger has always been committed to helping cooperative organizations, not banks. Historical frustration with bank unwillingness to lend to cooperatives has reinforced the idea with SICR management that the banks are the "bad guys." Yet all three of the commercial banks in Niger that the US can work with⁶⁵ have suggested that they need an intermediary institution to lend to rural and MSE borrowers. The best way to serve rural and cooperative groups is to make it easier, safer and more reliable for financial institutions to lend to these groups. Most SICR credit agents are indifferent whether a loan is paid off on time or three months late. SICR's policy of setting fees is based the mistaken perception that the cooperative groups cannot afford to pay more. Their fee structure must be based on their actual operating costs.

The second conflict of interest is internal. SICR is operated by a collective, *Kokari*, which is supposed to take over management of the Service at the end of USAID funding. *Kokari* is effective at

ank the *Banque Commerciale du Niger* is Libyan owned

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

managing their loan portfolio and protecting their interests. They have no management expertise. Recently Kokari members suggested that the SICR drop its performance commission and return to paying straight salaries without the commission. While there is no indication that the current technical director would consider such a move, the proposition is indicative of the types of management-labor-client conflicts typical of organizations. These conflicts are why there must be a separation between management and staff. CLUSA/SICR continues to speak as if KOKARI will soon take over the management functions of the project. This will be a mistake.

The major advantage of the SICR as a credit matchmaker is that it can exploit its comparative advantage of assembling, monitoring and collecting on loans without undertaking the risks and costs of safeguarding funds. A major criticism leveled at credit matchmakers in the NGO context is the conflicts of interest about whom the organization should serve⁶⁶. This criticism holds for the SICR.

CLUSA/SICR is currently researching the possibility of either abandoning the matchmaker idea to become an *etablissement financier* similar to a finance company or combining matchmaker functions within the finance company. This decision is largely motivated by frustration at commercial bank reticence to lend for rural and/or MSE activity. This frustration is justified. It is not at all clear that the commercial banks will ever be committed to a serious expansion of financial services outside the urban and industrial sectors⁶⁷. Considerable enabling environment constraints continue to limit banks' willingness to lend for rural and MSE activities.

If banks are not going to lend to the rural and MSE sectors, then the SICR and other semi-formal financial service activities must either become savings and loan institutions or finance companies. The downside of moving from a loan broker to a finance company is illustrated by BRK.

While the BRK has many weaknesses, their biggest problem was an absence of a system to safeguard their money that will result in an estimated loss of at least 100 million F CFA. The costs of establishing all of the internal and external controls necessary to reduce and insure against the risk of loss of funds to disaster, poor loans, poor follow-up on good loans, loss of funds in transit, theft and embezzlement, are much higher than SICR management realizes. Christenson (1993) estimated that the costs to an NGO of safeguarding capital can be as high as 50% of the cost of funds lent.

If the SICR decides to become an *etablissement financier* it will need assistance in designing, costing and putting into place essential safeguards. This assistance requires both local and expatriate experience. An ideal consulting team would consist of three individuals:

- an expatriate financial controller with experience in small enterprise and rural banking services,
- a local insurance representative who could assist the SICR in establishing structures under which a local company would be willing to insure the new *etablissement financier*, and,
- a local legal expert

⁶⁶ Conflicts of interest as a problem in NGO credit matchmakers has been cited by Elisabeth Rhyne, USAID Global Bureau, and Matt Gamser, director.

⁶⁷ Excess liquidity and reduced opportunity to invest in international money markets.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

The above technical assistance should be part of an overall assistance strategy to CLUSA to

- Identify financial objectives that can be measured in terms of outreach, returns to equity and capital, loan volume and IRR,
- set a fee or interest rate structure that will enable CLUSA to realize the above objectives,
- design and implement a structure and a management information system (MIS) appropriate to the institution and its objectives, and,
- train management and staff so that they can grow and respond to market demand

USAID should be cautious in sanctioning the mobilization of cooperative members' funds for the creation of a finance company, before the above has been achieved, or while AID is still an active partner. AID lends credibility to its implementing organizations, and therefore serves as an incentive for borrowers and investors to put their funds in an institution that may not have the controls in place to ensure the safety of those funds

(c) WOCCU

USAID supports the development of a credit union movement in Niger through the Niger Credit Union Development Project II carried out by WOCCU. The first phase of the project been operating in Niger in 1989. One of three rural and MSE financial service projects financed by USAID, WOCCU has grown at more than 100% per year since 1990.

The current project has four objectives

- Provide training in credit unions philosophy and operating principles,
- Insure safety and soundness of member deposits through operating management practices,
- help build a critical mass of credit unions essential for the development of a central financial clearing facility for credit unions and a national service organization and,
- obtain an appropriate legal and regulatory framework for credit unions in Niger

The biggest criticism of the WOCCU approach is the large up-front investments necessary to accomplish the first three of the above objectives. While the up front investments in training and human capital development are high, the results in Niger look promising.

Credit unions charge 2% per month on a declining balance for outstanding loans. They do not yet receive interest in their deposits. Most credit unions are required to be in existence for one year before they can make any loans. First time borrowers can only borrow an amount guaranteed by their own funds or those of a cosigner. As members establish a credit history, they are slowly able to borrow amounts greater than those secured by funds.

Total member assets of 50 credit unions in Niger as of June 1995 is more than 210 million F CFA. Member deposits totaled 157 million F CFA, outstanding loans to credit union members are 73 million F CFA. The average member (excess liquidity – number of credit union members is 15,000 F CFA per member. Excess liquidity stands at 110 million FCFA.

WOCCU has already surpassed most of its end of project indicators for project success. Number of credit unions organized, number of credit union members, total assets, and member deposits are all well above project targets [WOCCU Progress Report June 1995]. Outstanding loans – deposits are

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

only at 60% of targeted levels but this is largely due to the large number of new credit unions that have not yet begun to make loans

Return on assets, and number of trainings and number of people trained are not associated are only one-third of end of project indicators Return on capital is low in part because of credit union liquidity that earns no return A crisis of confidence in the banking sector has resulted in a 67% increase in funds kept within credit unions safes⁶⁸ As credit unions move more of these funds into both loans and savings in one or more of the commercial banks ROK will improve

Failing to meet training objectives is not a serious problem in the short term However, WOCCU should be careful that the movement does not grow faster than its directors can be adequately trained and its members sensitized to the hows and whys of sound credit union management

USAID has financed several studies to learn how appropriate credit unions are as a tool to finance the development rural and MSE economic activity Most credit union movements do very little to track members' economic activity that is clearly more of a donor concern than it is for credit union managers Credit unions lend to members based on their character Credit unions spend very little time or money evaluating the capacity of a member's activity to generate funds needed to pay back a loan The credit union motto concerning lending is, "A good loan is one paid back "

Credit unions could provide a valuable service to their members and valuable information to the donor by helping members' determine the profitability of activities financed before granting loans As loan size grows and competition in various production and transformation activities increases, **capacity** to repay will become as important as the character of the borrower

During this study members of the research team visited the credit union of Sae Saboua to interview members about their economic activities The village of Sae Saboua also participates in the CLUSA/SICR program The credit union had a 40% growth in membership in the last year and almost a 400% increase in deposits An interesting evolution is occurring Several credit union members are also members of the cooperative group that uses CLUSA/SICR to access bank loans The SICR requires a minimum of a 25% down-payment by each member of the cooperative group seeking financing before the group can access a loan The cooperative group in Sae Saboua requires a 40% co-financing from its members that is much more conservative than the CLUSA requirement Several credit union members interviewed use the credit union to build up savings to co-finance their loan request, and a number use their credit union account to collateralize their loans This represents an interesting evolution between two very different financial services models

The big question for the future of the credit union movement in Niger concerns the establishment of a central lending facility and a national training and monitoring service facility Member confidence in their individual credit unions is high It is not clear whether they will have the same level of confidence in a central facility, particularly after the departure of donor support So far WOCCU staff has been successful at combating the rent seeking mentality that is the demise of many decentralized financial service projects This challenge is far from over

crisis within the BIAO system in Africa due to a bank failure in Zimbabwe sent shockwaves throughout the Meridian/BIAO system The that the BIAO in Niger was in difficulty This crisis of confidence was worsened when the president of Niger encouraged the population to pull funds from the BIAO The president of Niger happens to be a significant shareholder in the competing SONIBank The BIAO is under stress and the temporary crisis appears to be resolved

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

The growth in the credit union movement, the growing success of credit unions being able to mobilize surplus savings⁶⁹, all suggests that the credit union is an important tool in financing growth in the rural and MSE sectors. USAID should continue to support the credit union movement at least through the initial phases of the central finance facility, and national service center.

4c Other donor funded Semi-formal Financial Institutions

There are about two dozen donor-funded micro or rural financial service activities managed by half as many donors. None of them stand out as innovative in their techniques or committed sustainable delivery of services.

Donors have budgeted a remarkable sum of funds for semi-formal financial institution development. Jean Thompson (1994) estimates potential supply of funds at 35 billion F CFA. This study overestimates the level of available credit funds in the semi-formal sector because it counts total budgets and not available funds or outstanding loans. Interviews with AFELEN the Caisse Francaise du Development, PNUD, GTZ and USAID the major donors in the sector put the capital potentially available for small- medium- and micro- enterprise activities at closer to 15 million dollars or 7 billion 500 million FCFA.

There is not a set of operating principals that unite most of the semi-formal financial institutions, though a lack of sound financial management practices is a unifying characteristic. Many do not plan to become sustainable. Of those that do, most are not realistic. All operate with significant subsidies. The best subsidize capital but not operating costs.

One of the more promising initiatives among the semi-formal financial institutions is AFELEN (*Agence de Financement et d'Encouragement de la Libre Entreprise au Niger*). Its clients are mainly small and medium sized enterprises. It offers loans at rates that could cover its subsidized-cost-of-capital and operational expenses if loan volumes were expanded. Their transaction's costs are high. Their dossier rejection rate is almost 90%. In their first year of operation, AFELEN financed 60 loans for a total of 1.9 billion CFA.

Many NGO projects link financial services to other transactions or desired behaviors. Projects finance the sale of motor pumps, carts, and wells in kind. Others give loans for limited activities if the participant agrees to plant trees or undertake some NRM activity. These systems have high hidden costs and are not sustainable. In all cases reviewed the in-kind credit cost the borrower more than if she or he were free to purchase it on the open market [GTZ, Projet Tarka, FED].

Several of the semi-formal financial institutions visited, operate under the condescending assumption that people in the Sahel have nothing and therefore no knowledge of how to manage anything. Based on these assumptions, assistance must be based first on giving people something (cheap credit) and then either managing it for them, or teaching them how to manage it. The form these activities takes is to grant low interest loans, generally with no collateral or co-financing required, and

ars given current growth credit unions deposits will exceed the total amount lent by both the SICR and the BRK in 1993

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

then to require that a portion of the payback constitute a forced savings account. The practice of forced savings should be abandoned because evidence from this study suggests that the average Nigerien saves a higher percentage of her or his income than their European or American counterpart. The practice of not requiring any investment by the operator is just bad business.

Semi-formal financial services that lack a commitment to cost recovery and eventual sustainability are beginning to undermine those that do. Both in the Rural Financial Institutions study [Creevey et al. 1995], and in this study, instances were observed where participants in one credit project declined to join a credit union or borrow from CLUSA or CARE because they had access to subsidized loans with another project.⁷⁰

Most of the semi-formal financial service projects have no idea what it costs them to deliver loans. Many claim to charge market interest rates. In reality, there is no market for financial services for most rural micro- and small scale enterprises. In the absence of a market, the term market interest rate becomes irrelevant. In order to build sustainable institutions out of the array of semi-formal institutions, loans will have to be priced at what it costs the institutions to deliver them. The inefficient will eventually drop out and those that remain will determine what the market price of a rural or an MSE loan is. This will obviously take time.

USAID has two roles in working with other donors' credit projects. The first is as a recognized leader in the field of building durable financial service institutions. USAID can contribute considerably to the debate on how to strengthen the financial services sector by bringing the lessons gained from successes worldwide to the table in Niger. While a number of donors are not yet convinced that sustainable institutional development is important, many if not most are interested in how they can more effectively manage their resources.

The second role for USAID is to ensure, with donors, that credit projects whose objectives are in conflict, not undermine each other. USAID in collaboration with the CEE, GTZ and the French need to agree to let the services focused on sustainable delivery of services operate in the most economically viable regions, relegating the high subsidy programs to those areas where an argument can legitimately be made that people are so destitute that it does not pay to try to build sustainable institutions there.

d Semi-formal financial institutions Prognosis

USAID needs to take a more active role in the monitoring and evaluation of its financial service projects. There are important lessons in what happened to the CARE/BRK system. USAID/Niger has given each of the three financial service projects free rein in managing themselves. New emphasis on economic growth necessitates sustainable institutions to deliver services to rural micro- and small scale enterprises. The development of sustainable financial institutions out of NGO projects should not leave anything to chance. If the USAID funded financial service projects

ple cited is of members of a CARE/women's tontin project declining interest in the BRK

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

particularly BRK and CLUSA are to achieve significant out reach, efficiency and sustainability, they will need more guidance and direction

CLUSA/SICR has been operating for two years with little idea as to how much they need to charge to meet their financial targets. While an earlier report was heralding the BRK as a likely success, the institution itself was foundering. WOCCU has fared better because an established methodology and MIS have enabled WOCCU to more effectively self-monitor than either CLUSA or CARE

SO2 targets call for measurable real economic growth. If USAID is going to invest in financial service projects-in-order-to-achieve SO2, it must act as the principal investor that it is

CLUSA/SICR is considering becoming a member owned *etablissement financier*. BRK is headed to the creation of a mutual savings and lending institution under the upcoming revised banking law. When they achieve this step, and USAID no longer subsidizing a major portion of their costs, AID will no longer have a say in how the successor institutions manage themselves. Until then AID can do much to maximize the potential success of these and other financial service projects by insisting on and assisting in the following

- annual financial audits (semi-annual for the BRK),
- establishing a fee structure or interest rate that enables the project to achieve its financial goals taking into consideration actual performance and expected growth (CLUSA, CARE),
- development of adequate monitoring and evaluation and management information systems (CLUSA, CARE),
- establishment of clear operating procedures, particular with regards to employee performance, compensation and debt recovery

In addition USAID/Niger can do much to improve the enabling environment for the operation of financial service projects by working to limit reform the laws concerning collateral contracts, and limiting the powers of the Inspection de Travail. If USAID is committed to strengthening the financial sector as a means to support accelerated economic growth it needs to be more dynamic in its role as a "godfather" and as an investor

6 Conclusions {Babu riba, babu bashe (No profit, no credit, Hausa)}

(No profit no credit Hausa)

Babu riba, babu bashe

(No profit no credit Hausa)

A reasonable case can be made that real per capital economic growth in Niger is achievable. It is difficult to imagine, however, real economic growth without substantially improved access to capital for large numbers of Nigerien rural small- and micro-enterprise operators. Today the total of private sector financing is difficult to calculate exactly but does not exceed 32 billion F CFA. Per capita, this amounts less than 4,000 FCFA or \$8 00US per capita. If one counts only loans for micro- small- and medium scale enterprises, total loans are inferior to 6 billion F CFA by liberal estimates. This

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

amounts to less than \$2 US per capita Today less than 2% of the population of Niger receives financial services from formal or semi-formal institutions

At the same time that insufficient funds are available to finance economic growth, there is an extremely large surplus of savings in the economy Most of this savings is in the informal sector largely invested in livestock but close to 200 million dollars US is kept in cash

It is unlikely that a major increase in donor funds for rural micro- and SME development would occur even if it were justified Yet without a major increase in access to financial services it is difficult to see how real economic growth will be financed The appropriate donor strategy should be to alleviate the constraints to the mobilization of this indigenous liquidity for productive use

An analysis of the financial sector in Niger suggest that opportunities exist for growth in the financial sector and subsequent capitalization of economic activities that will drive real growth At the same time there are many obstacles to overcome before the financial sector can play any role in accelerating economic growth in Niger The lack of financial services is a major constraint to enterprise growth and development Today there are no institutions prepared to fill this gap in a manner that will have an impact on economic growth in the short term If the financial sector is to play a role in facilitating this economic growth of Niger, the major donors in collaboration with each other can do much to accelerate this process

The following section summarizes principal observations of the status of the financial sector in Niger in as of September 1995

The commercial banking sector will not play a significant role in economic development in the short- and mid- term

The commercial banking sector does not play a significant role nor does it envision itself playing one in the overall economic development of Niger Large scale commerce (mainly imports), mining and a very small number of large industrial firms (beverage, petroleum, and energy) plus government construction contracts made up 77% of all bank lending in 1993 All of these loans tend to be fully collateralized or externally guaranteed The banks are currently unable to assess or manage the risk associated with a micro-small- and medium enterprise portfolio What is more important, they would rather not learn

Today the banking sector is ill-suited and not motivated to reach out directly to larger numbers of relatively small scale clients Their cost structure and there analytical tools are not suited to lending to the rural and microenterprise sector Because of relatively free access to the BCEAO money market window until 1993, commercial banks never had to learn how to manage the risk of diversified credit portfolio

The commercial banking sector finds itself in a situation of excess liquidity but this may be a temporary phenomena It remains to be seen whether formal sector financial institutions will attempt to expand their lending portfolio and grow, or downsize their liabilities to bring them in line with their current lending portfolios Evidence suggests that in the short to mid-term, banks will adopt the more

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

conservative strategy of downsizing rather than the riskier one of learning how to lend without full guaranties. The major clients of the banking sector are the BCEAO, the mining sector, large scale commerce, and large mainly European private sector firms holding public sector construction contracts.

That said, things are changing. Banks can no longer deposit 10- 15 million CFA each week in the BCEAO were it is invested in the relatively risk free international money market. Projects with full guarantees come few and far between. In the short term the banks strategy is to down size there liabilities, mostly deposits, to a level that can be served by the small portfolio of risk free investments that the banks make. In the mid-and long term this is an untenable strategy and the banks know it. Slowly banks will either have to learn to manage a relative diverse portfolio of assets, or hire agents or brokers to do it for them. It is not clear whether existing donor guarantees can be effectively leveraged to increase loan outreach in this adverse environment.

If one or more of the commercial banks decides in the future to lend to small and rural enterprises, they will need to work through an institutional intermediary better suited to evaluate the credit worthiness of proposed loan projects. The only way the formal banking sector can be expected to finance diversified economic growth in the short term, is by working through such profit making intermediaries⁷¹.

Most of the donor funded financial service projects lack any vision to achieve operational self sufficiency, and ultimately, profitability and growth

Most of the donor projects providing financial services to the private sector, are based on a fatigued model of dependence on subsidized donor funds. The better of them have adopted procedures that ensure strong recovery rates, and/or charge fees that cover most of the activities operating costs.

Many of them either have major recovery problems, poor record keeping, fees insufficient to cover costs, subsidize loans, inadequate training of credit agents, and no viable plan to expand services or outreach, independent of donor subsidies.

Of the USAID funded projects financial service projects only WOCCU stands out as having a clear vision of the future, high recovery rates, strong training, positive and almost exponential growth. At the same time, WOCCU dependence on member savings borrowed at 0% interest is a limiting factor to the growth of credit union savings. WOCCU also requires substantially higher training subsidies than either of the other AID funded projects. The CLUSA/SICR has most of the elements of a strong credit program with greatly reduced risk of mismanaged funds because they manage loans for the commercial banks rather than lend themselves. CLUSA/SICR is currently developing a plan for future growth but it appears as driven by ideals as by financial principles. The CARE/BRK project is currently in the worst shape of the three and in the absence of donor support and monitoring, could not continue.

tatives of the BOA, BIAO, and the SONIBank all articulated this point.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

On the other hand CARE/BRK's current technical advisor is aware of the problems, and has developed a program to address them. If both CLUSA/SICR and CARE/BRK commit to implementing sound credit management principles, both have a good chance of becoming operationally self-sufficient in the next two years. CLUSA/SICR could reach operational self-sufficiency in the next year.

Of all the semi-formal financial service activities in Niger only the WOCCU credit unions are close to achieving operational self-sufficiency⁷². AFELEN has considerable potential to serve the SME sector but is slow to grow to its capacity and loans are subsidized. The best of the remaining semi-formal financial institutions in Niger have not yet reached operational self-sufficiency, though CLUSA/SICR has potential to achieve operational self-sufficiency. CLUSA/SICR has decided to change its status to become a licensed finance company (établissement financier au Niger) and intends to operate as a profit making institution for its member owners.

If the donor funded semi-formal financial activities are to have any impact on overall economic growth in Niger, it is absolutely essential that they become, first, operationally self-sufficient, and then institutionally independent of limited donor resources. The only proven way of achieving this is for these institutions to begin earning returns sufficient to attract savings and or investment capital.

Potential exists in the semi-formal financial sector, to improve operations and achieve outreach

The only way to realize AID/Niger targets by 2002 is for WOCCU, BRK and SICR to 1) cover all operating costs out of invested capital and equity, 2) set fees high enough to attract savings or investment capital sufficient to displace donor contributions, and 3) by doing so expanding services to reach 10% of the Nigerien population in the next decade.

Excess liquidity is also found in the informal sector

The informal sector also has apparent excess liquidity. Several observations support this observation. Considerable savings is occurring at negative rates of interest indicating a positive demand for savings services (see figure E 3.1 Estimated supply for savings). Almost all households save, liquid savings are either kept at home for emergencies or with *gardes-monnaie* and *tontines*. None of these forms offer any returns to the saver other than the services of accessibility and security. The willingness to accept a negative return on short term savings is indicative of a surplus. An argument can be made that the considerable savings that are held in the form of livestock and buildings could provide higher economic returns invested in light production and transformation activities. Currently there are no institutions in which rural Nigeriens can invest in which offers them returns equal to or greater than what they could earn from livestock production. Estimates of cash savings in the economy in the informal sector are between 90-180 million dollars US. WOCCU reports that the demand for a reliable institution in which to save is very high in rural areas. The WOCCU project in Niger has six times as many savers as borrowers with a surplus savings of 15,000 F CFA per member. Finally, large commercants whose gross income is in the billions of FCFA annually report large investments made elsewhere in Africa and in foreign banks because they are unwilling to invest their surplus liquidity in the Nigerien private sector at this time.

dual credit unions are operationally self-sufficient. large subsidies remain for training and IB

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

The informal sector will continue to be the major source of rural and agricultural finance

This is both good and bad for the development of the economy. A reasonable estimate of the informal sector is that it produces 200% of Niger's GDP. Most of the financial flows from this sector are also from informal sources (there is a small amount of capital flows from commercial banks to the informal sector). There also appears to be short term liquidity surpluses in the informal sector. Without informal savings and credit instruments, informal sector growth would not be possible. At the same time, the highly personal nature of informal financial services makes it impossible to allocate these resources based on the potential returns of a proposed activity. Most of the informal sector financial services are linked to commerce and trade and little capital is available for transformation and production.

The role of the informal financial sector will shrink as the semi-formal institutions in Niger become viable

Complementarity exists between the informal and the semi- and formal sector institutions. The informal sector finances the residual set of activities thought of as too risky for the formal sector. In Niger this is most economic activity. As the semi-formal institutions grow both in outreach and profits in Niger, it is likely that even the banking sector will begin to get more involved. As semi- and formal sector institutions mobilize investments and savings out of the informal systems to finance transformation and production, the surplus in the informal sector will diminish. Until that time the informal sector will continue to take up most of the slack.

The most significant constraints to increased investment in small- and medium- enterprises is the lack of viable economic activities to finance. Much of the lack of bankable activities is due public sector obstacles to the creation and operation of formal sector enterprises

Almost every financial service project contacted, remarked on the "manque d'esprit initiative", in the context of explaining the lack of bankable dossiers to finance. At the same time the courageous few who have attempted to operate small to medium sized enterprises complain of a hostile regulatory environment that requires authorizations and ceding of control of function normally considered the domain of business management. The most outrageous of these offenders is the Inspection de Travail, and the civil courts that back them. Today the abuses of the Inspection de Travail make it virtually impossible for a firm to recruit and fire based on competence or lack thereof. Required authorizations from SNE and NIGELEC for the installation of private water sources and electric generating capacity also serve to discourage the creation of private firms.

The major constraints to increased investment in microenterprises are the lack of extensive outreach of financial service projects, and a formal financial sector disinterest in rural, micro- and informal sector enterprises. A complete disinterest on the part of commercial banks in rural and MSE financial services is only minimally tempered by a situation of excess liquidity necessitating that banks either lend or down size. Among the semi-formal institutions, very few have shown the will to earn sufficient profit from loans to offer savers and investors a respectable return on their investment.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

Assuming surplus savings in the economy, the challenge for financial institutional development is to mobilize the surplus capital on one hand, and to find bankable projects to finance on the other. After these short term questions are addressed the remaining question is how to make these institutions profitable enough to continue mobilizing capital so that the institutions can grow to serve enough of the population to have an impact on the overall economy.

Subsidized credit has been and continues to undermine the establishment of sustainable financial institution development in Niger

Subsidized donor credit activities undermine both the supply and demand side of the financial services challenge. Subsidized interest rates encourage the rural poor to remain in activities that would not be profitable in the absence of such subsidies, such as cereals marketing, rather than moving into more profitable activities that enable them to earn rents that can be used to offset the adverse consequences of future droughts.

The ubiquitous claim that there is a lack of profitable activities to invest in is in part exacerbated by the provision of subsidized credit. On the same side of the balance sheet a number of micro-entrepreneurs were identified who were not interested in borrowing from either a bank or donor project charging real rates of interest, because they could get subsidized credit from projects that have no intention of building sustainable financial service institutions. Since 1992 CLUSA/SICR has not been able to operate in arguably profitable regions in the arrondissement of Aguié because of a FED funded project providing cheaper credit in the same area. There appears no indication that the FED program has any objectives of becoming sustainable.

Subsidized credit projects also serve to hinder the mobilization of surplus savings for productive investment. If the current set of formal and semi-formal institutions providing financial services is to grow to reach large numbers of Niger's rural poor, they must be able to offer rates of return to their savers and investors high enough to shift this into these institutions. Paying positive real rates of interest to savers and positive real returns to investors necessitates charging positive real rates to borrowers. Institutions moving from operational self-sufficiency to institutional independence cannot compete with subsidized credit programs. Subsidized credit programs serve rather to slow the growth of sustainable institutions.

The lack of coordination among donors and lack of access to information about principles of successful institutions learned elsewhere in the world, are significant constraints to consensus building about the importance of sustainable institutions and how to go about developing them

The development of Nigerien financial service institutions, both formal and semi-formal, suffers from a lack of information regarding the lessons of small and microenterprise financial service successes worldwide. Banks, and NGOs dedicated to sustainable financial institutional development need to be aware of what can work elsewhere. Too many semi-formal institutions contacted cited the observation that what works elsewhere is not important because Niger is different. While indigenous and environment and constraints should neither be ignored or underestimated, they should never be used as an excuse to ignore established principles. The lessons learned from the emerging successes in micro- small- and medium enterprise lending which have become the accepted principles are analogous to the wheel. If you want to move something in an efficient manner one

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

needs a wheel. Now it may be more appropriate to put those wheels on a charette, on a bush-taxi, or on a 4x4. The most appropriate vehicle to take Niger towards sustainable financial institution development must take into consideration the enabling environment. Regardless of the vehicle chosen if the wheel is not round it will not go anywhere.

Worldwide, USAID has emerged as the leader in the development of sustainable micro and small enterprise financial institution development. USAID should take a leadership role in coordinating with the other principal donors in the field and the GON to share experience, develop a consensus on basic operating principles for the development of sustainable institutional development, and establish ground rules for operating that facilitate cooperation and minimize competition particularly from non-sustainable approaches. Efforts should be made to establish a consensus among major donors to conduct annual financial audits as a diagnostic tool. Agreements on annual audits will also encourage greater financial discipline among service providers. While some of the smaller donors will not be expected to follow immediately, much will be achieved by getting the larger donors in this field to agree on the importance of operational self-sufficiency, capitalization from local sources and increasing independence from donor funds. An additional area which will benefit from donor collaboration is the establishment of standards for guarantee funds so that banks do not get donors to compete against each other to offer banks higher and higher levels of guarantees. Eventually the smaller donors can be coerced to adhere to the same principles.

With its existing projects the goal over the next two years should be for all USAID activities to become fully operationally self sufficient. While investment in some of the ancillary assets of these programs like training and study tours can be supported by AID, there is no evidence that additional capital contributions will help these projects achieve operational self-sufficiency and profitability any quicker. USAID needs to audit each of its financial services projects on an annual basis, and use these audits as a basis for determining the optimal path for each project to achieve independence.

Assuming commercial bank willingness to work with the rural sector through profit making intermediaries, USAID should negotiate with its existing projects, most notably CARE/BRK and CLUSA/SICR to determine whether either or both have the capacity and the willingness to intermediate between commercial banks and rural and micro- and small- scale enterprises on a national level. If these discussions are not favorable it is advised that USAID/Niger work through an institutional contractor to assist in the establishment of a for profit loan brokerage service.

On the policy level USAID should continue to collaborate with the donor community to push for reforms both in the financial sector and in improving the operating environment for emerging private sector businesses. These and other recommendations are discussed in detail in the recommendations section.

a Validity of the USAID vision

USAID/Niger's Strategic Objective 2 (S02) is to improve access to markets especially through use of improved, decentralized financial services. The objective is clear and in its level of generality, attainable. The critical question is whether Niger's financial sector is capable of the level of growth required to support overall GNP growth of at least 4%. The answer to the latter question is not at all clear.

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

In the "Proposed Country Strategy Plan 1995-2002" a set of assumptions are made underlying the targets identified for SO2. While the author has no dispute with the majority, it is not yet clear that, "no further degradation in the banking sector will occur. Both the BOA and SONIBANK are suffering from excess liquidity and given a choice between downsizing "voluntary degradation" or learning how to lend to the private sector, management of both will likely downsize.

The projected growth in semi-formal financial services will necessitate greater levels of capital than donors are able to provide, this in turn implies institutional growth based on mobilized indigenous capital. If we accept a limited but functional definition of development as the mobilization of indigenous resources for productive use, nothing could be better than to "grow" existing financial service projects into ones capable of mobilizing local capital. Doing this however requires a serious commitment to growth which requires in turn earning enough profit to attract indigenous sources of capital. While there is little evidence that the interest rate elasticity of demand for loans is very high, the supply of investment capital is very sensitive to returns. There is no mention in the Proposed Country Strategy Plan 1995-2002 that the USAID funded programs will need to increase their profitability in order to achieve the projected magnitude of outreach.

The projected increase in loan demand in the Proposed Country Strategy Plan 1995-2002, is insufficient to support the level of growth needed to have a positive impact on GDP. To have ten percent annual growth in the rural sector, increased investments of xxx need to be made. For this growth to have a reasonable equity distribution financial services need to be available to at least 10% of the population of Niger. It is proposed that targets be expanded to increase the level of financial services to 4.0 billion F CFA by 1999, with 350,000 clients by the same time increasing to 8 billion F CFA in 2002 with 500,000 clients. The only way this will be feasible is for the existing semi-formal financial institutions to earn enough profit to attract these levels of capital. No new injections of capital should be needed.

More decentralized viable and transparent financial services *Result 2 1*

This result discusses the cross fertilization potential of financial services. While this is fine in principle, management and agents of financial service projects should not be burdened with multiple objectives. A particular concern is the tying of cereal banks and NRM training to decentralized financial service projects. It is not at all clear that cereal banks increase food security better than accumulating equity to be better able to purchase food during long droughts. While NRM training and financing of NRM activities is important it is not clear how linking these to financial service activities supports decentralization. To the extent that linking other objectives to financial services raises the costs or diminishes the profitability of those institutions it is a bad idea. The objective of increased outreach of financial services is to provide ever more people with ever more opportunities to increase their incomes and thereby improve their lives.

Bankers work more with microenterprises and the informal sector *Result 2 2*

The targets in this section seem too modest to realize the desired outcome. Banks today have excess liquidity and a desperate need to learn how to safely lend to the private sector in the absence of complete guarantees. Two banks are already working with the SICR and AFELEN is already willing to work with the BRK and the SICR. The BIAO can be reasonably expected to come back on

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

board when it straightens out its internal affairs USAID will never be in a better position than now to negotiate greater leverage on its guarantee funds

The carrot, and it should be offered quick, is that USAID will help train bank staff not only in local languages but more importantly in the technologies of managing a micro- and small enterprise lending portfolio Bank staff can be trained in country as well as sent on study tours Likely tour sites are ACEP in Senegal, K-REP in Kenya, and the BRI, and Kupedes system in Indonesia In reality USAID has a very small stick since the banks can't figure out what to do with the money that they have Continued pressure on the BCEAO to promote national investment is a *sina qua non* of achieving SO2 objectives and should not be considered either a carrot or a stick

Given current performance of the CLUSA/SICR project the guarantee fund could be leveraged as much as five times without increasing the bank's exposure to risk (see box on leveraging guarantee funds)

Increased number and size of women's enterprises *Result 2 3*

The targets here are realistic The key point here is that in Niger and elsewhere it was found that women have greater access to financial services when the interest rate rises When markets rather than political power ration credit women get more of it The repayment rates of loans to women's groups managing individual loans suggest that the returns to investment in training more groups in the financial management skills needed to be effective retailers of financial services is worth the cost While indicators of women's access to credit need to include numbers or percentages of total borrowers, particularly for Congress the underlying issue should not be forgotten It is easier to target women as beneficiaries of activities, but this alone is not sustainable It is harder to alleviate the constraints women face in accessing resources but this is the only sustainable approach Once the constraints to women's access to financial resources are alleviated, numbers of loans and loan amounts will not be important Women will access these services when it is profitable for them to do so

b In summary

The framework of SO2 is sound It is not clear whether the financial services sector will be able to meet the challenge of financing real GDP growth If it will, it can only occur through real growth in financial services, which can only occur through profitable financial services financing profitable economic activities providing borrowers with a surplus Financial service clients will then be free to invest in cereal banks, NRM practices, technology, and health services Through the development of sustainable financial services the rural peasant, the urban artisan, and the commercant will be better able to decide her or his own fate Do the existing formal and semi-formal financial institutions have the capacity and will to meet this challenge? It is not clear

USAID/Niger can do much to strengthen the enabling environment conducive to financial sector growth, support the existing institutional capacity to meet this challenge and coordinate with donors to best respond to a real demand for savings and loans Support for training of collective groups that can function as retailers of financial services, strengthening the capacity of its three projects to achieve operational self-sufficiency and ultimately profitability, of commercial banks to better manage

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

a commercial lending portfolio, and in the absence of an effective financial service intermediary create one

C Interventions to improve the level of services for financial sector growth

No major growth in financial services for enterprise finance is possible without first alleviating the enabling environment constraints. Producers need to be free to export their products to, without obtaining special permission. The powers of the Inspection de Travail need to be greatly curtailed. Licensing of enterprises including obtaining any operating permits, needs to be *de facto* and not just *de jure* simplified. This will generate demand. The procedures to seize and liquidate the assets of borrowers who have failed to repay, must favor the lender and not the defaulted borrower. This will increase supply. Alleviating the enabling environment constraints is a necessary and a sufficient condition for financial sector growth.

If USAID chose one activity that whose objective would be increased financial services, that activity should be a project to reform the enabling environment. An enabling environment reform project would address the legal and regulatory changes that need to be made. It would also address the *de facto* environment.

The environment in Niger and throughout the Sahel suggest that a financial sector expansion project should not be limited the necessary and sufficient condition. Good rainfall over the past two to three years, devaluation of the CFA, and the first steps toward liberalization have brought about positive real economic growth of at least 8% per year. Savings potential exists to finance much higher levels of investment.

The growth is not yet sustainable. If it can be maintained for several more years it will have gained its own momentum and Niger will never be as dependent on rainfall as before. An opportunity exists to help Niger kick start its economy. Improved financial institutions capable of mobilizing savings and lending for productive activities are an important part of this kick start. Conservatism and lack of expertise in both banks and NGOs, indicate that without assistance, Nigerien financial institutions will not evolve fast enough to take advantage of these favorable pre-conditions.

Maximizing the possibility that Niger's financial institutions will be able to respond to and finance a growing demand for services calls for strengthening the institutions as well as improving the enabling environment. It is therefore proposed that USAID design and implement a set of Financial Sector Strengthening Activities. The purpose of these activities are to

1. Alleviate demand constraints to expanded financing of economic activities by assisting the GON to

curtail powers of the Service de Main d'Oeuvre and its Inspection de Travail (as has already happened in Senegal and Mali),
liberalize border trade with Nigeria including eliminating of export licenses,
eliminate the need for permits to own and operate generators and water storage facilities

2. Alleviate supply constraints to expanded financing of economic activities by assisting the GON to

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

rewrite credit contract law to allow for seizure and liquidation of borrower assets without having first to go to court,

allow any asset usufruct or fee-simple to be used as collateral,
specify shorter delays between repossession and sale of seized assets,
reduce delays in litigation over credit contracts due to inefficiency and corruption,
codify in the upcoming revised banking law that non-mutual financial service organizations may mobilize borrower savings without obtaining special authorization

3 Strengthening the commercial banking sectors capacity to extend financial services to rural and MSE clients by

supporting part or all of the costs of employing, equipping and training a rural, micro- and small enterprise lending person within one or more of the commercial banks. These costs would include training, salaries, a computer printer, and a budget for field follow-up of clients. USAID would support these costs for a period of two years. After two years the income generated from the rural and MSE loan portfolio should cover all of its associated costs and USAID should be able to withdraw its support⁷³

Conditionalities should be tied to AID support of commercial bank staff. Participating banks must agree

to accept both a maximum guarantee of 75-80 percent declining over an agreed upon period of time, and that any guarantee funds be leveraged. Guarantee funds would not be leveraged in such a manner that would expose the bank to significantly increased risk. The goal rather, is to enable significant portfolio expansion with existing funds. These preconditions assume working with clients and or an intermediary with an established repayment rate equal or superior to 95 over a period of at least three years. Higher guarantees could be negotiated with new clients.

that guarantee funds not be accessed until all collection efforts have been made and either borrower collateral or the enterprise has been liquidated

4 Expand support for Existing Financial Service Projects

The relative success of USAID funded rural and microenterprise credit projects and the likelihood that all three of these projects have a chance of becoming sustainable given stricter adherence to sound financial management principles warrants serious consideration for continued funding. Additional support should not include capitalization. Technical assistance and training funds however could be used to

Identify financial objectives that can be measured in terms of outreach, returns to equity and capital, loan volume and IRR,

set a fee or interest rate structure that will enable the NGO to realize the above objectives,

representatives contacted during this study indicated that with a 2 billion CFA rural and SME loan portfolio the BOA could dedicate a loans. The total loan portfolio of the BOA in August 1995 was only 2 billion F CFA

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

design and implement management information systems (MIS) appropriate to the institution and its objectives, and,

train management and staff so that they can grow and respond to market demand

establish regular internal and external audits

5 New Financial Services Activity If CLUSA/SICR is unable or unwilling to expand its services to cooperative and private clients, by continuing to intermediate between commercial banks and borrowers, USAID should support the creation of a new institution whose function would be to broker loans between commercial banks operating as credit wholesalers, and associative groups who would receive training and manage a bank loan parsed out to its members. These small groups would function as credit retailers

6 Training in literacy and numeracy Develop argument ?

Close, appendices and graphs to be added

IV Conclusions

At least five strategies have very strong possibilities of producing short and intermediate-term growth well in excess of four percent per year in Niger. These possibilities all appear feasible and two of them, exploitation of gold deposits in the Liptako Region and the F CFA devaluation, are already creating economic expansion. USAID's current assistance in improving credit, natural resource management and the policy environment, with emphasis on the rural sector have helped promote and can continue to promote these possibilities. USAID's emphasis on the informal sector has been and continues to be the most effective means to promote economic growth. In the longer term the growth of population must decline, otherwise it is likely to consume all the gains likely to be made in economic growth in the next five to ten years.

The five promising strategies of growth in the next five to ten years are summarized in Exhibit 4 which is contained in the Executive Summary. These sources of growth and their potential impacts are

- Private sector exploitation of gold in the Liptako Region began in 1995. Based on conservative estimates this activity can add 17 percent per year to Niger's GDP within five years. It is also likely to increase rural incomes 1.4 percent per year.
- Exploitation of phosphate fertilizer deposits at Tahoua can increase GDP from crop production six percent per year. The impact can be even greater if the phosphate causes a demonstration effect that makes farmers more willing to adopt higher input agricultural methods as opposed to the current practice of using and not replacing the minerals on farmland. Result of the demonstration effect could include
 - * Phosphate use on range land and improves livestock production,
 - * Sequential and increasing use of other agricultural inputs such as water harvesting, and nitrogen-adding fertilizers
- A demonstration effect that could add another 2 percent per year to GDP originating in the agricultural sector

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

- The 1994 devaluation of the F CFA could add 3.5 percent to rural GDP per year. This estimate is based on recovery of an estimated loss of this magnitude that occurred with the appreciation of the F CFA in relation to the Nigerian Naira during the period 1985-87. The financial impact of the 1994 devaluation will grow as producers and consumers in Niger and Nigeria discover the price changes that this change in the real exchange rate has caused. The impact is likely to be particularly positive for SMEs since 85 percent of them have three or fewer workers and they wish to stay small to avoid public sector scrutiny. As they multiply to take advantage of new marketing possibilities brought about through the devaluation, USAID's work in rural credit and enabling environments will be particularly important to them.
- Agricultural seeds and marketing assistance require improvement. Seeds, need to be improved to take advantage of plant nutrition that will become available with increase phosphate usage. Improved varieties of seeds already exist, but systems are needed to multiply and distribute them. Farmer use of improved seeds is estimated to be capable of adding 1.25 percent per year to GDP.
 - ◆ Agricultural marketing, particularly storage, transportation and competition in commodity markets needs improvement so that farmers have a high likelihood of receiving sufficient cash income each year to cover the costs of their inputs.

◆
USAID's program vision has merit to the extent that it strives to have a direct impact on the informal sector and an indirect impact on the formal sector. All evidence suggests that the formal sector is handicapped by extremely onerous government regulation. Moreover, government agencies are responding very slowly or not at all to the need for change. An important indicator of this non-responsiveness is the strong and steady rise in real wages of government workers since the early 1980s. Real wage rates of government workers rose approximately 60 percent during the period 1984-93 in the context of (a) steadily weakening domestic and international sources of income within the overall economy and (b) low inflation rates that ranged between half and two percent per year during this period.

V Recommendations

Detailed recommendations are contained in each section of the report. Overall recommendations that summarize proposed project activity for USAID include:

- Serve as a catalyst for private production and distribution of Tahoua phosphate fertilizer and seeds
- Continue to encourage resource management practices to increase farm production,
- Sponsor studies, perhaps through PASPE, to identify policy actions that could be used to help maintain Niger's real exchange rate at its present level with particularly Nigeria. Selective tariffs that could be applied through a third party contractor to minimize inefficiencies represent one policy action that has research priority.
- Continue to improve the enabling environment for SMEs which keep book and must endure oppressive labor and international trade regulations of the formal sector. Success in improving certain aspects of the enabling environment, such as USAID's success in reducing illegal

DRAFT USAID/NIGER Economic Reform and Microenterprise Program

transportation fees on the road systems help the much smaller MSEs now. Broader improvements in the enabling environment will help encourage MSEs to grow and eventually make the transition to the formal sector.

- Critically analyze current efforts to improve rural credit to identify an institutional construct that could efficiently mobilize rural and formal-savings for rural lending. Such an institution does not exist yet, but could be created from features of the three credit projects that USAID is sponsoring now. From inception the financial institution to be structured in organizational mindset and fee structure to make a profit. Moreover the definition of "profit" that the organization should make would be "true profit" in the sense that it would be recognized as such by real or imagined stockholders.
- Promote donor coordination to avoid inadvertent damage to existing MSEs through subsidy programs to promote MSE development.