

PD-AAZ-817
ISA 62570

COMMUNITY AND ENTERPRISE DEVELOPMENT PROJECT

(685-0260)

PROJECT PAPER AMENDMENT NO. TWO

USAID/Senegal
August 25, 1989
Doc. 4589 0

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ACTION MEMORANDUM FOR THE MISSION DIRECTOR, USAID/SENEGAL.

DATE: 25 August 1989

FROM: William Hammond, PDO

THRU: Terry Myers, PDO

SUBJECT: Community and Enterprise Development Project (685-0260),
Project Authorization Amendment and Project Paper Amendment

I. ACTIONS REQUESTED: To approve a Project Authorization Amendment (Attachment A) and a Project Paper Amendment (Attachment B) for the Community and Enterprise Development (CED) project to:

(1) increase the life of project (LGP) funding from \$11,000,000 to \$13,729,000;

(2) extend the project assistance completion date (PACD) for 27 months from September 30, 1991 to December 31, 1993; and

(3) amend the project's goal and purpose to extend the geographic scope of the project to allow for the expansion of small-scale enterprise (SSE) credit activities to the Dakar region.

II. DISCUSSION

The Project Paper (PP) and the Authorization for the \$9 million Community and Enterprise Development project were approved by the USAID/Senegal Mission Director on September 6, 1983. The Project Grant Agreement was subsequently signed on January 4, 1984. The original project goal is to encourage decontrol and commercialization of rural production in the Kaolack and Fatick regions. The project purpose is "to enable village organizations and small-scale enterprises in the regions of Kaolack and Fatick to manage and sustain their own development." The PP further distinguishes two sub-purposes related to the project components:

- Village organizations (VOs) assisted by Private Voluntary Organizations (PVOs) are capable of carrying out development projects which benefit themselves and the region; and

- Small-scale enterprises assisted by project are managing and sustaining their own growth; assistance being provided to other SSEs in the regions by a Senegalese institution.

A.I.D. issued a Cooperative Agreement to the New Transcentury Foundation on August 2, 1985, to set up the Management Unit and to implement the project. NTF has a contract with Management Systems International to provide certain long and short-term technical assistance (TA).

USAID/Senegal subsequently approved PP Amendment Number One on April 13, 1989, which extended the original PACD for fifteen months from June 30, 1990 to September 30, 1991, increased the life-of-project funding by \$2 million to a total of \$11 million, and revised the project goal and purpose to extend the geographic scope beyond the original Kaolack and Fatick regions to neighboring regions for the SSE credit component in order to expand the Kaolack-based small-scale enterprise credit opportunities to a point of profitability.

In April 1989, the Government of Senegal requested assistance from all donors for their "Program of Action for Employment Generation with Special Emphasis on Youth." This action program has been designed to provide short-term employment opportunities to mitigate the employment effects of the structural adjustment program in Senegal. The government has asked all donors to support new employment projects, especially involving public works employment, and more importantly for USAID, to accelerate or expand current projects to increase employment.

Several recent surveys have shown that there is an economically important and dynamic informal sector in the Dakar region which includes micro and small-scale enterprises. Also, surveys have shown that access to credit is a major constraint to growth facing these enterprises. The SSE lending component of the CED project has developed a model, methodology and procedures for providing credit to SSEs which works. The project enjoys a 95% reimbursement rate and carries an interest rate of 24%. The SSE credit is making an important, although still limited, economic impact in the two regions, including the creation of over 180 jobs in two years of operation. In addition, the Kaolack SSE credit model can be replicated in the Dakar region with few modifications to provide needed credit to the Dakar informal sector.

Detailed financial projections show that the Dakar SSE credit institution could be profitable by the end of 1993 if the default rate is kept below six percent, interest rate remains at 24 percent, and the loan portfolio approaches \$1.6 million by 1993. This date will move up considerably if the loan portfolio increases at a higher rate than predicted which is very possible in the Dakar area.

The attached PP Amendment No. Two provides additional funds and time under the project to institutionalize SSE credit activities in Dakar. The amendment extends the PACD for 27 months, from September 30, 1991 to December 31, 1993, and increases the LOP funding by \$2,729,000 bringing the total approved level of funding under the project to \$13,729,000. In addition, the PP Amendment revises the goal and purpose of the project to expand the geographic scope in order to establish a credit program in the Dakar region. Likewise, additional project outputs and inputs for the Dakar expansion only are included.

B. FINANCIAL SUMMARY

Table 1 of the PP Amendment presents the Revised Financial Plan for the Dakar SSE credit expansion through 1993. The following table provides a summary of the major categories of planned expenditures between January 1, 1990 and December 31, 1993:

<u>ELEMENTS</u>	(\$000)				<u>TOTAL</u>
	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	
Technical Assistance	219	224	244	35	722
Commodities/Equipment/Vehicles	155	0	0	0	155
Operational Support to Institution	141	198	113	0	452
Loan Fund Capitalization	1000	0	300	0	1300
Evaluation/Audit	0	20	80	0	100
TOTAL FOR EXPANSION	1515	442	737	35	<u>\$2729</u>
Previous Project Budget Total					\$11000
<u>TOTAL REVISED LOF</u>					<u>\$13729</u>

C. SOCIAL, ECONOMIC, TECHNICAL AND ENVIRONMENTAL DESCRIPTION

The Project Committee in USAID/Senegal has reviewed this PP Amendment and has concluded that the project remains technically sound and appropriate analyses exist to ensure project acceptability and feasibility. There are no human rights implications.

Also, the negative determination of the Initial Environmental Examination (IEE) in the PID and the deferred IEEs on Risk/Benefit Analyses for Pesticide Use in Annex 16 of the PP are not affected by this amendment. IEE Amendment Two for this project amendment is included in Annex D of the PP Amendment.

D. CONDITIONS, COVENANTS, IMPLEMENTATION PLAN AND IMPLEMENTATION AGENCIES

The conditions and covenants of the PP and Project Grant Agreement, as previously revised, are not changed. This amendment also does not change the implementation agencies; the project will continue to be provided policy guidance by the National Project Committee comprised of representatives from six Ministries and USAID. An implementation plan for the Dakar SSE credit expansion is found on pages 14-15 of the PP Amendment. The Cooperative Agreement with the New Transcentury Foundation (NTF) will be extended and additional funds included to allow NTF to set up and implement the Dakar SSE credit program.

E. PROCUREMENT AND WAIVERS

Annex C of the PP Amendment provides a revised procurement plan for the Dakar expansion only. No additional waivers are anticipated under the revised project. However, if new waivers are required, appropriate rules under Sahel Development Program and Development Fund for Africa regarding procurement will be followed depending on the source of the funds being used.

F. RESPONSIBLE MISSION OFFICES

The Project Development Office has overall responsibility for planning, coordinating and managing project activities. In AID/W, AFR/PD/SWAP will provide backstopping for the project, coordinating with other technical offices as required.

G. EVALUATION/AUDITS

One external evaluation is scheduled for April 1991 to examine the suitability of established credit procedures and policies, impact of loans where available, progress towards meeting the project objective of institutionalizing SSE credit program, and progress towards meeting the objective of profitability. In addition, two non federal financial compliance audits for the Dakar SSE credit program are budgeted in this PP amendment to take place during early 1991 and mid 1992.

III. JUSTIFICATION TO THE CONGRESS

All appropriate Technical Notifications (TN) have been submitted to Congress and have expired. \$10.6 million has already been obligated under the project. The Mission expects to obligate \$1.629 million of deobligation/reobligation Sahel Development Program funds during FY 1989. In addition, the Mission will obligate an additional \$1.5 million in DFA funds during FY 1989 to fully obligate the project.

IV. AUTHORITY TO APPROVE AUTHORIZATION AND PP AMENDMENTS

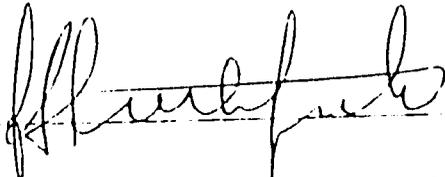
Africa Bureau Delegation of Authority No. 551, as revised, gives you the authority to approve authorization amendments for up to \$30 million in project costs for a cumulative LOP not to exceed 10 years when the amendments (a) do not present significant policy issues; or (b) do not include waivers than can only be approved by the Assistant Administrator for Africa or the Administrator. This request is within this authority.

In addition, the Acting Assistant Administrator for Africa approved the PID-like cable for the proposed expansion to Dakar and authorized the Mission to approve the PP amendment. The approval cable is shown in Annex F of the PP Amendment.

V. RECOMMENDATIONS

That you sign the attached Project Authorization Amendment Two (Attachment A) and the PP Amendment No. Two (Attachment B) thereby approving:

- (1) an additional \$2,729,000 for a new LOP funding of \$13,729,000;
- (2) an extension of the PACD from September 30, 1991 to December 31, 1993; and
- (3) revised goal and purpose to expand the geographic scope of the project to allow for the expansion of SSE credit activities to the Dakar region.

Approved 
 Disapproved _____
 Date 30 AOUT 1989

Drafted: PDO, Witamink; 8/24/89

Clearances: PDO:ALy (Draft) Date 8/28/89
 CONT:MGianni MS Date 8/28/89
 PRM:RGilson (Draft) Date 8/28/89
 PRM:RGreene (Draft) Date 8/29/89
 RLA:EDragon EAD Date 8/30/89
 DDIR:GNelson K Date 9/30/89

Doc: 4593-0

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PROJECT AUTHORIZATION AMENDMENT, AMENDMENT TWO

Country: Senegal

Project Title: Community and Enterprise Development

Project Number: 685-0260

1. Pursuant to Section 121 of the Foreign Assistance Act of 1961, as amended, and the Foreign Operations, Export, Financing and Related Programs Appropriations Act, 1989 (Public Law 100-461), the Community and Enterprise Development project was authorized on September 6, 1983 and amended on April 13, 1989.

That Project Authorization, as amended, is further amended as follows:

a. To amend the planned obligation amount, the period of obligations and the life of project, Section 1. is revised to read as follows:

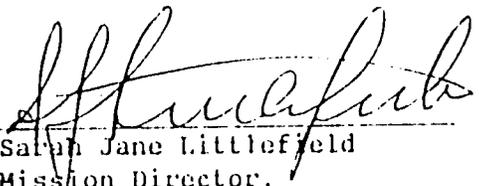
"1. Pursuant to Section 121 of the Foreign Assistance Act of 1961, as amended, and the Foreign Operations, Export, Financing and Related Programs Appropriations Act, 1989, (Public Law 100-461), I hereby authorize the Community and Enterprise Development Project for Senegal, involving planned obligations of not to exceed \$13,729,000 in grant funds over a seven-year period from date of authorization, subject to the availability of funds in accordance with the AID OYB/allotment process to help in financing foreign exchange and local currency costs for the project. The planned life of the project is ten years from the date of initial obligation."

b. To amend the project description, Section 2. is revised to read as follows:

"2. The project purpose is to enable village organizations and small-scale enterprises in selected regions in Senegal to manage and sustain their own development. The project consists of assistance to (1) village organizations through Private Voluntary Organizations to carry out productive development activities which benefit themselves and the regions, and (2) small-scale enterprises through a credit fund to increase profitability and sustain their own growth."

2. The authorization, as amended, cited above, remains in force except as amended hereby.

Date: 30 AOUT 1989



Sarah Jane Littlefield
Mission Director,
USAID/Senegal

Drafted: PDO, WHamnink; 8/24/89

Clearances: (As shown on Action Memorandum)

Doc 45940

PROJECT DATA SHEET

1. IDENTIFICATION NUMBER: **C**
 A = Add
 C = Change
 D = Delete

Amendment Number: **TWO**

CODE: **J**

3. COUNTRY/ENTITY: **SENEGAL**

4. BUREAU/OFFICE: **AFRICA** [06] **COMMUNITY AND ENTERPRISE DEVELOPMENT**

5. PROJECT NUMBER: **685-0260**

5. PROJECT TITLE (maximum 40 characters):

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM DD YY [1][2][3][1][9][3]

7. ESTIMATED DATE OF OBLIGATION (Under "B." below, enter 1, 2, 3, or 4)
 A. Initial FY [8][3] B. Quarter [] C. Final FY [9][10]

8. COSTS (\$1000 OR EQUIVALENT \$1 -)

A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. I/C	D. Total	E. FX	F. I/C	G. Total
AID Appropriated Total	3,668	5,332	9,000	4,838	8,891	13,729
(Grant)	(3,668)	(5,332)	(9,000)	(4,838)	(8,891)	(13,729)
(Loan)						
Other U.S. 1.						
Other U.S. 2.						
Host Country						
Other Donor(s)						
TOTALS	3,668	5,332	9,000	4,838	8,891	13,729

9. SCHEDULE OF AID FUNDING (\$1000)

A. APPRO. RELATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) SH	250B	290		9,000		1,629		10,629	
(2) SS	250B	290		2,000		1,100		3,100	
(3)									
(4)									
TOTALS				11,000		2,729		13,729	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): **070 110 248**

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BR	INTR	TNG	PART
II. Amount				

13. PROJECT PURPOSE (maximum 480 characters):

To enable village organizations and small-scale enterprises in selected regions of Senegal to manage and sustain their own development.

14. SCHEDULED EVALUATIONS

Interim	MM	YY	MM	YY	Final	MM	YY
	0	8	9	0		0	3

15. SOURCE/ORIGIN OF GOODS AND SERVICES: 000 941 Local Other (Specify) **935 under DFA**

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment)
 This Project Paper Amendment No. Two extends the PACD for 27 months, from September 30, 1991 to December 31, 1993, increases the LOP funding by \$2,729,000 to a total of \$13,729,000 and revises the project goal and purpose to extend the geographic scope in order to expand SSE credit activities to the Dakar region.

Clearance: *Moussa Keane*, Controller

17. APPROVED BY: *S. J. [Signature]*
 Title: **Mission Director ISATD/Senegal**

Date Signed: **MM DD YY [08][5][08][9]**

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: **MM DD YY [] [] []**

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ABBREVIATIONS

ABC	ABC Consultants, Inc.
A.I.D.	Agency for International Development
CED	Community and Enterprise Development
COP	Chief of Party
EOPS	End-of-Project Status
GES	Les Groupements Economiques Senegalaises
GTE	Groupement d'Interet Economique
GOS	Government of Senegal
I.OP	Life-of-Project
MSI	Management Systems International, Inc.
MU	Management Unit
NTF	New Transcentury Foundation
PACD	Project Assistance Completion Date
PIO/T	Project Implementation Order for Technical Services
PP	Project Paper
PVO	Private Voluntary Organization
REDSO	Regional Economic Development Support Office, Abidjan, Cote d'Ivoire
SSE	Small-scale Enterprise
TA	Technical Assistance
U.S.	United States
USAID	United States Agency for International development
VO	Village Organization

I. EXECUTIVE SUMMARY

The Government of Senegal has requested assistance from all donors for their "Program of Action for Employment Generation with Special Emphasis on Youth." This action program has been designed to provide short term employment opportunities to mitigate the employment effects of the structural adjustment program in Senegal. The government has asked all donors to support new employment projects, especially involving public works employment, and more importantly for USAID, to accelerate or expand current projects to increase employment.

Several recent surveys have shown that there is an economically important and dynamic informal sector in the Dakar region which includes micro and small-scale enterprises. Also, surveys have shown that access to credit is a major constraint to growth facing these enterprises. The small-scale enterprise (SSE) lending component of the Community and Enterprise Development (CED) project, based in the regions of Fatick and Kaolack, has developed a model, methodology and procedures for providing credit to SSEs. The project enjoys a 95% reimbursement rate and carries an interest rate of 24%. The SSE credit is making an important, although still limited, economic impact in the two regions, including the creation of over 180 jobs in two years of operation. In addition, the Kaolack SSE credit model can be replicated in the Dakar region with few modifications to provide needed credit to the Dakar informal sector.

Detailed financial projections show that the Dakar SSE credit institution could be profitable by the end of 1993 if the default rate is kept below six percent and the loan portfolio increases between 25 and 45 percent annually, reasonable rates based on the experience in Kaolack. This date will move up considerably if the loan portfolio increases at a higher rate, which is very possible in the Dakar area.

This Project Paper (PP) Amendment No. Two provides additional funds and time under the project to institutionalize SSE credit activities in Dakar. This amendment extends the Project Assistance Completion Date (PACD) for 27 months, from September 30, 1991 to December 31, 1993, and increases the life-of-project (LOP) funding by \$2,729,000 bringing the total approved level of funding under the project to \$13,729,000. In addition, this PP Amendment revises the goal and purpose of the project to expand the geographic scope in order to establish a credit program in the Dakar region. Likewise, additional project outputs and inputs for the Dakar expansion only are included.

II. PROJECT BACKGROUND AND STATUS

A. PROJECT BACKGROUND

The Project Paper and the Authorization for the \$9,000,000 Community and Enterprise Development project were approved by the USAID/Senegal Mission Director on September 6, 1983. The Project Grant Agreement was subsequently approved on January 4, 1984. The original project goal is to encourage decontrol and commercialization of rural production in the Kaolack and Fatick regions. The project purpose is "to enable village organizations and

small-scale enterprises in the regions of Kaolack and Fatick to manage and sustain their own development." The PP further distinguishes two sub-purposes related to the project components:

- Village organizations (VOs) assisted by Private Voluntary Organizations (PVOs) are capable of carrying out development projects which benefit themselves and the region; and

- Small-scale enterprises assisted by project are managing and sustaining their own growth; assistance being provided to other SSEs in the regions by a Senegalese institution.

The project has two components: (1) sub-grants to U.S. and local PVOs to assist village organizations, through the provision of training, technical advice, and credit, to plan and implement financially viable productive activities; and (2) a loan fund providing credit to SSEs using strict business criteria and the highest legal allowable interest rate. The PVO sub-grants and the SSE credit activities are managed by a Management Unit (MU) situated in Kaolack. The MU has two operational units: the Small Business Lending Program and the PVO Assistance Program. The MU also includes a Chief-of-Party (COP) and a separate accounts section.

A.I.D. issued a Cooperative Agreement to the New Transcentury Foundation (NTF) on August 2, 1985, to set up the Management Unit and to implement the project. NTF has a contract with Management Systems International (MSI) to provide certain long and short-term technical assistance (TA).

USAID/Senegal subsequently approved PP Amendment Number One on April 13, 1989, which extended the original PACD for fifteen months from June 30, 1990 to September 30, 1991, increased the life-of-project funding by \$2,000,000 to a total of \$11,000,000, and revised the project goal and purpose to extend the geographic scope beyond the original Kaolack and Fatick regions to neighboring regions for the SSE credit component in order to expand the Kaolack-based small-scale enterprise credit opportunities to a point of profitability.

B. PROJECT STATUS

PP Amendment Number One dated April 13, 1989 provides detailed information on the status of project activities (pages 4-6) which remain valid. However, important changes have taken place in the SSE component since April 1989. Revised control and accounting systems were designed and instituted in the SSE component during April and May 1989. Necessary changes in duties and responsibilities of head office and field office staff have strengthened the management of the component. A new component Director with extensive credit management experience will arrive on October 1, 1989. He will refocus the SSE component to be managed as a business and as a financial institution. The change in management style, accountability and cost consciousness are necessary steps leading to a profitable, independent financial institution. Also, the SSE credit component started providing new loans in July 1989 following suspension of new loans in March 1989 due to inadequate control and accounting. Despite the suspension of new loans and large turnover in field agents, the reimbursement rate of the over 200 outstanding loans continues to be a remarkable 95%.

Notwithstanding the recent problems of accounting and internal control, the CED SSE credit delivery model continues to demonstrate a viable approach to SSE credit in Senegal. Recent major changes in accounting, internal control and management will significantly strengthen the system and the lessons learned from previous mistakes will strengthen any replication of the model. The project's basic credit strategies -- i.e. charging the highest legal interest rate possible, disciplined enforcement of credit terms, more "risky" collateral arrangements than banks, field credit advisors close to their clients, approval based on profitability of proposals instead of level of guarantees, and the minimalist approach supplying credit only rather than technical assistance and training -- have worked. The CED credit activities conform to the performance standard guidelines recommended by AID/W for SSE credit programs. Most importantly, the basic methodologies and procedures can be adopted and expanded to other regions in Senegal.

III. JUSTIFICATION FOR PROJECT EXPANSION

A. GOS PROGRAM OF ACTION FOR YOUTH EMPLOYMENT

The Government of Senegal (GOS) has launched a "Program of Action for Employment Generation with Special Emphasis on Youth." This action program is designed to provide short-term employment opportunities to mitigate the employment effects of the structural adjustment program in Senegal. The International Labor Office estimates that there are now about 200,000 new entrants to the labor market yearly. The majority have no skills and have not completed primary school. Also, the GOS has estimated that the number of persons affected by structural adjustment and requiring assistance in obtaining employment would approximate 13,000 for 1987-90, including graduates, terminated public employees and returning graduates. According to the GOS report on the program of action, the overall urban growth rate is estimated to be 3.8% and 4.7% in Dakar. Twenty-two percent of Senegal's population are now living in the Dakar area where 70% of industrial firms are located. Therefore, lack of employment opportunities and unemployment presents an urgent and growing problem in urban areas, especially in the Dakar region.

The GOS has accorded this program of action a high priority. They have asked all donors, including USAID, to pledge financial support to specific employment generation projects within their program of action. Also, the GOS has requested all donors to examine their current portfolios of projects to determine if additional resources could create or expand their employment impact. The GOS strategy emphasizes the informal sector as a means of increasing employment in both the rural and urban areas.

USAID/Senegal has closely reviewed on-going projects that could be expanded to increase employment. The CED project has developed a methodology and procedures for providing credit to SSEs. It has maintained an excellent loan recovery rate while carrying an interest rate of 24%. The CED project is making an important, although still limited, economic impact in the Kaolack and Fatick regions, including the creation of over 180 jobs in two years of operation. The SSE credit component has generated 1.17 jobs, both permanent and temporary, for every CFA 1,000,000 (\$3000) loaned out.

B. DYNAMIC INFORMAL SECTOR

Two recent surveys have provided a comprehensive body of information on Dakar informal sector businesses. The most detailed of these studies has been recently conducted for USAID by Charbel Zarour, May 1989, and is an in-depth investigation of 558 informal artisanal businesses. Another is a study of 100 informal small businesses (42 commerçants, 46 artisans and 12 service enterprises) conducted by ABC consultants for the CED options study in February 1988. Both of these surveys target business owners with fixed premises, therefore peddlars, people working from home, and others, are not included.

The informal sector in Dakar is extremely large and dynamic. A census of microenterprises conducted by Charbel Zarour in 26 neighborhoods of Dakar in November 1988 enumerated 29,616 businesses involved in manufacturing, construction, services, commerce and transport in 85 different types of activity. These businesses employed over 57,300 individuals. The 4,500 microenterprises in the production sector employed over 20,500 persons. Further, the President of the Chambre de Metiers (Artisan Chamber of Commerce) estimates that there are 85,000 artisans alone in the Dakar region.

Whereas in Kaolack and Fatick small business opportunities revolve around the provision of goods and services to the local population or to the agricultural sector, in Dakar the variety of opportunities is highly diversified. Potential markets are provided by the industrial sector, the international community, tourists, the administration, the agricultural sector, the port, not to mention the needs of a large urban population. For example, Dakar has 74 permanent markets which satisfy most of the people's daily needs. During field interviews with small business owners, lack of clients was never cited as a constraint, and many of the younger more organized business people had plans for expanding their existing clientele.

Far from being fragmented or overly competitive, small businesses in the informal sector appear to be well organized and mutually supportive. Businesses can be split into two broad groups: traders (commerçants) and artisans. The commerçants, primarily based in Sandaga market, are predominantly from the Mouride Islamic brotherhood. The most important association of commerçants is a syndicate called the Bureau Federale de Touba Sandaga. This group is extremely entrepreneurial, with members doing business all over the world, yet is highly traditional. Artisans tend to be less wealthy and less well organized. The umbrella organization that unites informal sector businesses is known as the GES (Les Groupements Economiques Senegalaises). It has 10,000 members belonging to eight federations that bring together an entire range of commercial, artisanal and service activities, and it includes a federation of women. The Bureau Federale de Touba Sandaga is an affiliated organization and its members are also members of the Federation of Commerçants. The GES provides a structure within which smaller members can have access to advice, legal counsel and assistance from more powerful members. Indeed, because of the tendency within Senegalese society to organize into groups, informal sector business owners tend to form part of a hierarchy in a loose overall structure.

The following summarizes the results of the two surveys:

- Literacy and Education: Most informal sector businesspeople have limited education. In Zarour's study, 35% of respondents could read and write in French, 70% had studied in Koranic school and 22% had received no form of education at all. In ABC's study, 52% of respondents could read and write in French, 54% could read and write in Arabic and 15% were illiterate; 78% had attended Koranic school.

- Accounting: Less than half of all SSEs keep books. In Zarour's study only 3% of respondents had a developed accounting system; 27% of respondents kept an order book and 41% an invoice book. In the ABC study 41% of the business owners interviewed kept some form of books, predominantly for registering purchases and sales.

- Relationship with Banks: There is limited involvement with the formal banking system. In Zarour's study, 29% of the respondents had savings or bank accounts. In ABC's study 43% of the sample had bank accounts; whereas 53% of commercants interviewed had bank accounts, only 17% of Artisans had the same. The use of bank services in Dakar is undoubtedly more important than in Kaolack because of availability of such services.

- Tax Status: Few SSEs pay taxes. In Zarour's study 33% of interviewees paid a monthly municipal business tax (Patente). Virtually no one paid other taxes such as the Service Tax (TPS), income tax (GIR), corporate tax (BIC), stamp duty, Insurance (IPRES), or social security.

- Role of the Family: The Kaolack SSE credit program has noted a very close link between business and family and evidence of a similar situation exists in Dakar. In Zarour's study 70% of the business owners responding employed members of their immediate family, and 78% employed relatives.

- Employees and Apprentices: Most employees are non-salaried family members or apprentices. In Zarour's study the average number of employees besides the owner, per business was 5.8, of whom 4.7 (or 81%) were apprentices. In ABC's study the average number of employees per business was 3 people, (1 person for commercial businesses, 4 people for artisans); of all employees, 71% worked as non-salaried family help, or apprentices.

- Average Turnover: The average annual turnover of SSEs is less than \$20,000. In Zarour's study, the average annual turnover (based on the business owner's declaration for a normal week) for an enterprise was CFA 4,700,000. In ABC's study the average annual turnover by the same method was CFA 6,600,000. However, the average annual turnover for artisans was CFA 4,900,000 and CFA 9,800,000 for commercants.

- Average Age of Business Owners and Businesses: In Zarour's study 44% of business owners were 25 to 34 years old, 29% were 35 to 44 years old, and only 8% were younger than 25 years old. Regarding the businesses themselves, 79% had been in existence for more than 2 years, 53% for more than 5 years and 29% for more than ten years. In ABC's study the average age of the enterprises surveyed was 12 years old. 12% had started within the last 2 years.

In summary, micro and small-scale enterprises in Dakar display many of the same characteristics as those in Kaolack and Fatick: no developed accounting system, relatively low levels of education and close links between business and family. However, an important difference is that the use of bank services for savings accounts is more important in Dakar, although still only 29-45% of the surveyed firms in Dakar have bank accounts.

C. DEMAND FOR CREDIT

The unmet demand for credit among informal sector businesses in Dakar is high. In Zarour's report, 40% of the respondents cited "lack of funds" as the most serious problem facing their business. 86% declared a wish to obtain a bank loan and 77% wanted to obtain some financial help from the government. Also, 55% of respondents declared plans for investing during the forthcoming months. In the ABC study, a full 98% of the entrepreneurs interviewed wanted to improve their businesses, mainly through the purchase of more machinery, raw materials or stock. Almost all of the enterprises gave lack of finance as a major reason why they could not expand or improve their enterprises.

The banks and other formal credit institutions in Dakar are not well adopted to and have little interest in lending to the informal sector. In Zarour's study only one business owner out of 533 had used bank credit as a primary source of finance for starting up his business, and only one business owner used it as a primary source for subsequent investment. Although 86% of business owners said that they wished to obtain a bank loan only 11% had actually tried to obtain one, of which two percent had succeeded (10 people). In the AEC study, five percent of the respondents (five people) had managed to obtain bank loans.

Likewise, both the Zarour study and ABC survey found that the informal sector businesses rarely used money lenders as a primary source of financing. In Zarour's study, only four out of 533 respondents used money lenders as a primary source of financing to start up their businesses, while only six people used money lenders as primary financing of subsequent investments. Only one person, one percent of the sample, had borrowed from a money lender in ABC's study.

Zarour's study found that the major source of informal business financing is from personal or family savings or retained profits. 80% of respondents used savings as the primary source of financing to start up their business. 90% used savings or retained profits as the primary source of subsequent investments in the business. In addition, 17% of interviewees started their businesses using the family as their primary source of finance, and 56% as their secondary source.

In addition, supplier credit has been an important source of financing for the informal sector. The ABC study found that 43% of respondents bought goods on credit from suppliers. Of the commercants interviewed, 62% bought goods on credit, and 30% for artisans. Normal terms of credit were sixty days. In 23% of cases the goods bought on credit were more expensive - at an average of 30% more expensive- than the same items bought for cash.

Until recently larger Senegalese businesses served as intermediaries, passing on credit to smaller ones. Recently, however, two events have disrupted this situation:

(1) A Liquidity Crisis at the Bank

Ten banks are operational in Dakar at present although liquidity is tight. Available credit is being passed on to (safe) large modern enterprises, and facilities to locally owned businesses have been increasingly restricted. The informal sector does not represent the type of clientele the banks are looking to serve.

(2) The Mauritanian problem and supplier credit

During April 1989 Mauritanian-owned small grocery stores were ransacked and looted throughout Senegal. Many of the items taken had been supplied on credit by large manufacturers who suffered substantial losses. These companies are now no longer able nor willing to supply goods on credit. The situation has been further aggravated because, following the departure of the Mauritanians, wholesalers in the grocery business have started opening retail outlets. This has tied up their capital and eliminated their potential for offering credit to other retailers.

Interviews with business owners in other sectors indicate a similar tightening of supplier credit. For example, in the construction business, suppliers will only provide credit to well-established customers against contracts and then at a premium.

A study carried out by the former Director of the Kaolack SSE credit component to provide strategy recommendations for the Dakar expansion found that despite the recent credit squeeze, purchasing power of the population as a whole has been maintained and the outlook for informal sector small businesses seems reasonable. There appear to be opportunities for small businesses and entrepreneurs with adequate experience to exploit them, but businesspeople have limited financial means and no access to credit. A well managed credit operation is needed.

In summary, the growing Dakar region offers high potential for the CED SSE credit model: high concentration of micro and small-scale enterprises, dynamic informal sector, important demand for credit that is not being met, important employment implications, proximity for management purposes, and a positive political impact of a program that works. Also, only small modifications will be needed in the methodology, procedures and systems developed in Kaolack to set up a Dakar SSE credit program.

D. PROFITABILITY

A Dakar SSE credit program could become profitable within three years if default rate is kept below six percent and the loan portfolio increases at reasonable rates based on the experience in Kaolack. Income statements through 1994 with detailed monthly financial and loan portfolio projections have been prepared using the financial model developed under the CED Kaolack credit program. These are shown in Annex B. The following assumptions were made:

- Four field agents hired, set up and trained between March 1990 and August 1990. Four additional field agents employed, set up and trained between June 1990 and November 1990. Two additional field agents starting in July 1993.

- New loans start in July 1990. Loan portfolio reaches CFA 85 million by December 1990 and CFA 288 million by December 1991. Growth rate in loan portfolio estimated at 34% in 1992, 25% in 1993 and 45% in 1994 with the opening of new offices. Average loan size starts at CFA 1.2 million in 1990, increasing to CFA 1.7 million by 1993.

- Default rate of six percent. Interest rate of 24%. Average loan length of 9 months. Payback rate on scheduled amortization of 96%.

- Cost of capital is free. Cost of any expatriate assistance not included.

- Exchange rate is \$1 equal to CFA 300.

The financial projections show that the credit institution could be profitable by the end of 1993. This date will move up considerably if the loan portfolio increases at a higher rate, which is very possible in the Dakar area. Sensitivity analyses using this model indicate that the interest rate and the default rate are major determinants of the break-even point.

IV. REVISED PROJECT DESCRIPTION

A. REVISED GOAL AND PURPOSE

The original goal and purpose of the CED project limited the project scope to the Fatick and Kaolack regions (formerly the Sine Saloum Region). The goal and purpose were subsequently revised in April 1989 through PP Amendment No. 1 to expand the geographical scope of the project to nearby regions such as Thies and Diourbel for the SSE credit activities in order to increase the SSE loan portfolio to allow the SSE credit component reach profitability. The former project goal was to encourage decontrol and commercialization of rural production in selected regions in the groundnut basin. This goal is again slightly revised to allow for the expansion of SSE credit activities to Dakar and is "to encourage decontrol and commercialization of rural and urban production in selected regions in Senegal." The revised project purpose is "to enable village organizations and small-scale enterprises in selected regions in Senegal to manage and sustain their own development." The project will continue to focus on the ability of village organizations and SSEs to plan, manage and sustain their own development, i.e. sustainable economic growth. Only the SSE credit program will be expanded beyond the original Kaolack and Fatick regions.

The End-of-Project Status (EOPS) indicators for the expansion of SSE credit to Dakar will emphasize the institutionalization of a profitable, private financial institution to continue SSE credit activities in Dakar after the PACD. The additional EOPS will be:

- Independent, private financial institution established in Dakar organizationally linked to a similar institution in Kaolack capable of providing loans to SSEs on a profitable basis.

- Profit potential of lending to small enterprises in the Dakar region clearly demonstrated and appropriate procedures, manuals and credit management system established for continued replication in other, mainly urban, areas of Senegal.

B. OUTPUTS FOR PROJECT EXPANSION TO DAKAR

The current project outputs as delineated in PP Amendment No. 1 remain valid. The following outputs directly related to the Dakar expansion will be in addition to the current outputs:

(1) 1,085 SSEs in the Dakar region have received credit and repayed loans on time with increased profitability of the enterprises.

(2) Development of appropriate model for institutionalization and replication of urban based SSE lending activities.

(3) Development of appropriate and creative linkages between SSE credit institution and other institutions supporting SSEs and informal sector in Dakar, including training and outreach programs.

(4) Creation of 640 temporary and permanent jobs in the Dakar region.

C. INPUTS FOR DAKAR EXPANSION

This PP amendment includes only those additional inputs required for the expansion of SSE credit activities to Dakar. All other current project inputs remain unchanged. Inputs required to meet the additional outputs and EOPS for the Dakar SSE credit activities include long and short term technical assistance, commodities and equipment, vehicles, local currency operational costs of the Dakar SSE credit component, capitalization of the SSE revolving credit fund and external evaluation and audits.

(1) Technical Assistance

One long-term Credit Management Specialist (3 person-years) will serve as Director of the Dakar SSE credit component for 30 months and as advisor to the Senegalese Director of the Dakar-based SSE credit operation for the final six months. The Credit Management Specialist will be a senior and experienced credit specialist with considerable credit and management experience in an African setting. The Dakar SSE Director will be responsible for setting up the SSE credit operations in Dakar, hiring all necessary local staff, closely managing and directing all aspects of the credit activities. Once the SSE credit component is well established and all accounting, tracking, internal control and loan approval systems are in place and functioning, the Director will be responsible to establish a financial institution under applicable Senegalese laws which will continue to provide credit to SSEs in Dakar upon completion of the project.

In addition, eight person-months of short-term technical assistance (TA) are required for the Dakar expansion. Short-term TA will be required during the first six months to train field agents and head office staff and set up appropriate accounting and internal control systems for the Dakar component. Short-term TA will also be used to undertake studies and analyses concerning the establishment of an independent financial institution to carry on project activities.

(2) Commodities, Equipment and Vehicles

A minimum amount of office equipment and supplies will be required to set up a head office and eight field offices in the Dakar region. Excess office equipment from the Kaolack components will be used whenever possible. In addition, two computers will be procured for secretarial support and for accounting and loan tracking. Also, two vehicles will be purchased for the use of the head office personnel. The field office and head office staff will be required to use available public transport in Dakar as much as possible.

(3) Operational Costs of SSE Credit Activities

The project will finance all local currency operational costs of the Dakar SSE credit component through June 1992. This includes local salaries, office rent, vehicle maintenance and support, transport, supplies, legal fees, and other miscellaneous costs of the program. By July 1992, projections show that the loan portfolio will be large enough to generate earned interest sufficient to cover all operating costs.

(4) Capitalization of Credit Fund

The project will contribute \$1,300,000 to the revolving credit fund over the three-year project expansion in Dakar. Projections of the loan portfolio show that the financial institution established by the project will require this amount even though the project is covering all operational costs of the program through June 1992 and all principal and interest repayments are being used in the revolving fund. Annex B provides the details of the projected loan portfolio through December 1994.

(5) Evaluation and Audit

One external evaluation of the Dakar SSE credit activities is scheduled for April 1991 to evaluate progress toward meeting project objectives and recommend ways to improve SSE credit operations leading to institutionalization of the program. In addition, one financial compliance audit during 1991 and one in 1992 will be carried out by a local auditing firm under the supervision of the Regional Inspector General's office for audit.

V. REVISED COST ESTIMATE AND FINANCIAL PLAN

The total life-of-project amount for all project activities based out of Kaolack is \$11,000,000. Of this amount, \$10,600,000 has been fully obligated. An additional \$2,729,000 is required for the expansion of SSE credit activities to the Dakar region. Therefore, the total life-of-project for all project activities is \$13,729,000.

A. FINANCIAL PLAN

Table 1 presents the Financial Plan for the Dakar expansion. The revised financial plan as shown in Table 2 of Amendment No. 1 (page 13) remains unchanged for all Kaolack-based project activities. Table 1 shows that an additional \$2,729,000 are required to fully implement all project activities for the expansion of SSE credit activities to Dakar. When added to the previous project budget total of \$11,000,000, the total life-of-project cost becomes \$13,729,000.

B. METHODS OF IMPLEMENTATION AND FINANCING

<u>Method of Implementation</u>	<u>Method of Financing</u>	<u>Est. \$000 for this Amendment</u>
(1) Cooperative Agreement	FRLC	\$2,549
(2) USAID Direct Contracts		\$ 180
- Audits	Direct Payment	\$ (40)
- Evaluation	Direct Payment	\$ (60)
- USAID Project Officer	Direct Payment	\$ (80)

VI. IMPLEMENTATIONA. STRATEGY

An urban-based, Dakar SSE credit scheme will require some modifications to the methodology, criteria and procedures that are used in Kaolack. As mentioned previously, the former director of the Kaolack SSE credit component carried out a four-week study of the Dakar informal sector during August 1989 to provide strategy recommendations for establishing a SSE credit program in Dakar using the Kaolack model. This study has provided valuable insight concerning possible problems and solutions and recommendations which will be used by the new Dakar-based Director in implementing the program. The study recommendations are summarized in Annex E.

The lending policy and criteria of the Kaolack SSE credit program will remain the same in the Dakar program. Staffing will also be very similar, with a Director and four Senegalese professionals in the head office and eight field agents in decentralized field offices. The head office will include a loan analysis/field supervisor, accountant, legal/jurist expert and audit manager. In addition, the head office will employ one secretary/administrative assistant. Modest, shop front, field offices will be opened in eight zones in the Dakar region where informal sector businesses are heavily concentrated.

Three important modifications from the Kaolack model for the Dakar SSE credit program concern guaranties, loan repayments and operational costs.

(1) Guaranties: The recent study made clear that loan clients in Dakar are more sophisticated than in the Kaolack region and generally will not respect their engagements to repay unless they have legally committed solid guaranties. Also, finding solid collateral that has value according to the

TABLE 1

REVISED FINANCIAL PLAN FOR DAKAR EXPANSION
COMMUNITY AND ENTERPRISE DEVELOPMENT PROJECT - 685-0260

PROJECT ELEMENT	1990		1991		1992		1993		TOTAL	
	P/M, #	COST	P/M, #	COST	P/M, #	COST	P/M, #	COST	P/M, #	COST
I. TECHNICAL ASSISTANCE										
A. L-T Credit Specialist	12	\$174,000	12	\$174,000	12	\$174,000	0	\$0	36	\$522,000
B. S-T Consultants	3	\$45,000	2	\$30,000	2	\$30,000	1	\$15,000	8	\$120,000
C. USAID Project Officer			6	\$20,000	12	\$40,000	6	\$20,000	24	\$80,000
II. COMMODITIES										
A. Head Office and Field Offices Setup		\$100,000		\$0		\$0		\$0		\$100,000
B. Vehicles	2	\$30,000		\$0		\$0		\$0		\$30,000
C. Computers/Equip.	2	\$25,000		\$0		\$0		\$0		\$25,000
III. OPERATIONAL SUPPORT TO SSE CREDIT INST.										
		\$141,000		\$198,000		\$113,000		\$0		\$452,000
IV. LOAN FUND CAPITALIZATION										
		\$1,000,000				\$300,000				\$1,300,000
VI. EVALUATION AND AUDIT										
A. External Evaluation						\$60,000				\$60,000
B. Independent Audit				\$20,000		\$20,000				\$40,000
PROJECT EXPANSION TOTAL										
		\$1,515,000		\$442,000		\$737,000		\$35,000		\$2,729,000
PREVIOUS PROJECT BUDGET TOTAL										\$11,000,000
TOTAL REVISED LIFE-OF-PROJECT AMOUNT										\$13,729,000

conditions of commercial banks can often prove difficult for small business owners. In Zarours's study of informal artisans of May 1989, 273 respondents out of 437 said that they had not applied for a bank loan because they believed they were unable to provide solid guaranties. On the other hand 263 of 558 respondents said they owned heavy equipment, and 32 owned land.

Experience in the Kaolack program indicates that most informal business owners do have access to some form of collateral either of their own, or belonging to a family member. Unfortunately, however, the market value of this collateral is often doubtful. In Kaolack the approach has been to make loan decisions on the viability of the project; assurance of proper guaranties comes after the preliminary loan approval. For the Dakar credit operation the loan approval decision will continue to be made on the viability of the project. The Dakar program will continue to accept individual guaranties when possible. However, at the same time the project will assist SSEs to form mutual guaranty groups, or "Groupement de Caution Mutuelle".

Mutual guaranty groups offer an innovative and important form of guaranty for loans. Under this system, five to 12 business people who already know and have mutual confidence in one another form a legal group, possibly legally defined as a Groupement d'Interet Economique (GIE). The GIE is a legal structure with statutes and rules that govern the operation of the group. In simple terms, members of the group agree to subscribe a certain amount each month into a blocked account. Once this amount has reached a certain level this serves as a guaranty fund for a proportional loan (eg the loan may be five times the amount of the fund). The first member of the group takes a loan. When he or she has repayed one-third of the value, the second member comes eligible for a loan to the value of the proportional value of the fund less the amount outstanding with the first member, and so on.

In case of late payment, the credit operation has automatic rights to deduct outstanding amounts from the guaranty fund. Because group members stand to rise or fall together, there is both social and financial pressure upon members to respect their commitments. These commitments are also clearly spelled out in the terms of contract legally constituting the group.

A system of Groupements de Caution Mutuelle serves two additional functions. The first is that it creates a savings structure within the credit operation (although it is not clear according to central bank regulations whether these funds can actually be used in the credit fund). The second is that the system ties local people into participation with the credit operation which is an important first step towards institutionalization.

(2) Loan Repayments: In Dakar banking facilities are easily available unlike rural Kaolack and Fatick. Repayment of loans will be made by the clients directly into a special bank account. In this way the SSE program staff does not have to deal with cash payments and with the accounting and internal control that this implies.

(3) Operational Costs: The Kaolack SSE credit program was started as a project activity and therefore less attention was paid to costs than to meeting objectives. The Dakar SSE credit program will be initiated and run like a business from day one, with profitability an important objective and costs an important factor. In addition, an accounting system will be developed for the Dakar program which will generate financial statements and provide profit information for each field office.

B. COOPERATIVE AGREEMENT AMENDMENT

New Transcendy Foundation, with assistance of their contractor Management Systems International, has successfully developed the CED SSE credit model and implemented the credit activities. NTF has the experience, can mobilize quickly to plan for and set up a similar credit operation in Dakar and has a current Cooperative Agreement with A.I.D. There is also high potential for synergism between the Kaolack and Dakar SSE activities at this stage and for future institutional linkages between the two programs.

Upon approval of the PP Amendment, Project Authorization Amendment and Project Grant Agreement Amendment for the Dakar expansion, the Mission will issue a PIO/T requesting the REDSO Agreement Officer to amend the NTF Cooperative Agreement for the Dakar SSE credit expansion. The Cooperative Agreement will be extended through June 30, 1993.

The Kaolack SSE credit program is currently going through major reorganization and has recently instituted revised accounting and tracking systems. It is still institutionally fragile and resources and energy must not be drawn from this component to implement the Dakar SSE credit program. Therefore, the Dakar SSE credit program will be implemented and administered completely separate from the Kaolack SSE credit component. Regular meetings and joint NTF project reports will allow for cross fertilization of ideas and strategies but the two directors of the credit components will be individually responsible for and have authority for their respective programs. NTF has already started recruiting for the credit management specialist. The Mission expects that the Cooperative Agreement Amendment will be signed by October 30, 1989 and the long-term program director in country by mid-January 1990.

C. IMPLEMENTATION PLAN

MONTHS 1-3

- Credit Management Specialist arrives in Senegal
- Location of Head Office Premises
- Recruit Loan Analyst/Field Supervisor
- Recruit Legal Officer
- Recruit Accountant
- Set up accounting system
- Begin review of systems, policies, procedures
- Purchase Vehicles/Equipment
- Recruit four Field Officers
- Begin Training

MONTHS 3-6

- Locate Field Offices + procure equipment
- Four Field Officers on Kaolack Assignment
- Begin dialogue with local business association, and promotion campaign
- Establish policies, systems, procedures
- Interview and Identify four more Field Officers
- Start to register Groupement de caution mutuelle

MONTHS 6-9

- Recruit Auditor
- Recruit Four more Field Officers
- Begin second round of Training
- Second batch of trainees to Kaolack
- Baseline study begins in four zones
- Four Field offices open for business

MONTHS 9-12

- First Loan Committee meeting, disbursement of loans
- Continue Information campaign promoting program
- Baseline study begins in 4 remaining zones

MONTHS 13-15

- Four more Field Offices open for business.
- New loans continue

VII. MONITORING AND EVALUATION PLAN

The Dakar credit operation will use the data collection and impact evaluation techniques developed by the Kaolack program for businesses that have borrowed and fully repaid loans. The initial loan dossier includes important information concerning the business (assets, employment, sales, profits etc) and the businessperson (education level, sex). Once the loans are repaid, a separate questionnaire is completed by the entrepreneur providing similar information on the business. Data on job creation, increased asset value, increased profitability etc., is extremely useful both for demonstrating results of the program and for developing client profiles. In the Dakar context all evaluation-data will be double checked so that doubts about the accuracy of impact statistics will not arise. Evaluation forms prepared by field officers will be verified by a member of head office staff in the field to ensure the quality of data before it is processed.

One external evaluation will be conducted during April 1991. This evaluation will examine the suitability of established credit procedures and policies, impact of loans where available, progress towards meeting project objective of institutionalizing SSE credit program, and progress towards meeting objective of profitability. The evaluation will provide recommendations for any necessary changes to meet project objectives.

In addition, two external financial compliance audits will be conducted during January 1991 and July 1992 by an independent auditing firm in Dakar to assure that the program is following appropriate accounting and internal control systems. These audits will be under the supervision of the Regional Office of the Inspector General for Audit in Dakar.

ANNEX A

COMMUNITY AND ENTERPRISE DEVELOPMENT

REVISED LOGICAL FRAMEWORK: SSE COMPONENT EXPANSION TO DAKAR

AUGUST, 1989

ACHIEVEMENTS	INDICATORS	VERIFICATION	ASSUMPTIONS
<p><u>Program Goal:</u> to progressively decontrol and commercialize rural production in selected regions in Senegal.</p>	<p>Private sector production growing at 5% per year; parastatal economic activities and staff constant or declining.</p>	<p>Regional macro-economic analysis of selected regions of Senegal.</p>	<p>1. GOS Economic Reform Plan implemented. 2. GOS policy continues to reflect decontrol and prioritization of agricultural related production and services and to decentralize responsibility for SSE development assistance.</p>
<p><u>Project Purpose:</u> To enable village organizations and SSEs in selected regions of Senegal to manage and sustain their own development.</p>	<p><u>End of Project (EOP) Status</u></p> <ol style="list-style-type: none"> 1. Institutionalization of a profitable, private financial institution to continue SSE credit activities in Dakar after the PACD. 2. Independent, private financial institution established in Dakar organizationally linked to a similar institution in Kaolack capable of providing loans to SSEs on a profitable basis. 3. Profit potential of lending to small enterprises in the Dakar region clearly demonstrated and appropriate procedures, manuals and credit management system established for continued replication in other, mainly urban, areas of Senegal. 	<ol style="list-style-type: none"> 1. Records of MU. 2. Market spot checks in area. 3. Data collected in evaluations. 	<ol style="list-style-type: none"> 1. GOS policy and pricing policies are conducive to SSE growth. 2. Senegalese institutions in Dakar region develop to the point that institutionalization of SSE assistance is possible. 3. Credit institutions in Dakar region are capable of meeting SSE needs.
<p><u>Outputs</u></p> <ol style="list-style-type: none"> 1. 1,085 SSEs in the Dakar region have received credit and repayed loans on time with increased profitability of the enterprises. 2. Development of appropriate model for the institutionalization and replication of urban-based SSE lending activities within Senegalese banking law. 3. Development of appropriate and creative linkages between SSE credit institution and other institutions supporting SSEs and informal sector in Dakar, including training and outreach programs. 4. 640 temporary or permanent jobs created. 	<ol style="list-style-type: none"> 1. Goods and services produced by project-assisted SSEs are being used in the region in urban markets and elsewhere. 2. Books and records of assisted-SSEs reflect skills taught in project. 3. Loan repayment rate remains over 95% over LOP. 4. Procedure manuals, training manuals, and credit management and accounting systems completed by year 5 of project and updated continuously during the life of the project. 5. Separate SSE credit unit operating independently by 1992 and profitably by 1993. 	<ol style="list-style-type: none"> 1. Business records. 2. Statistics provided by Chambre de Métiers. 3. MU credit records. 4. Statistics provided by MIS. 	<ol style="list-style-type: none"> 1. Goods and services produced correspond to needs of Dakar population and related SSEs needs. 2. Credit is sufficient to yield productivity and profitability increases for SSEs.

Legframe
Page 2

ANNEX A

ACHIEVEMENTS	INDICATORS	VERIFICATION	ASSUMPTIONS
Inputs			
1. Provide credit needed for SSEs.	- 36 person month of Long-Term TA; - 8 person months of Short-Term TA; - 216 person years of extension and other local-hire staff for operational support; - \$155,000 for 2 vehicles, 2 computers and office equipment; - \$1.2 million loan fund capitalization.	1. MU financial records. 2. Commodity purchase records	

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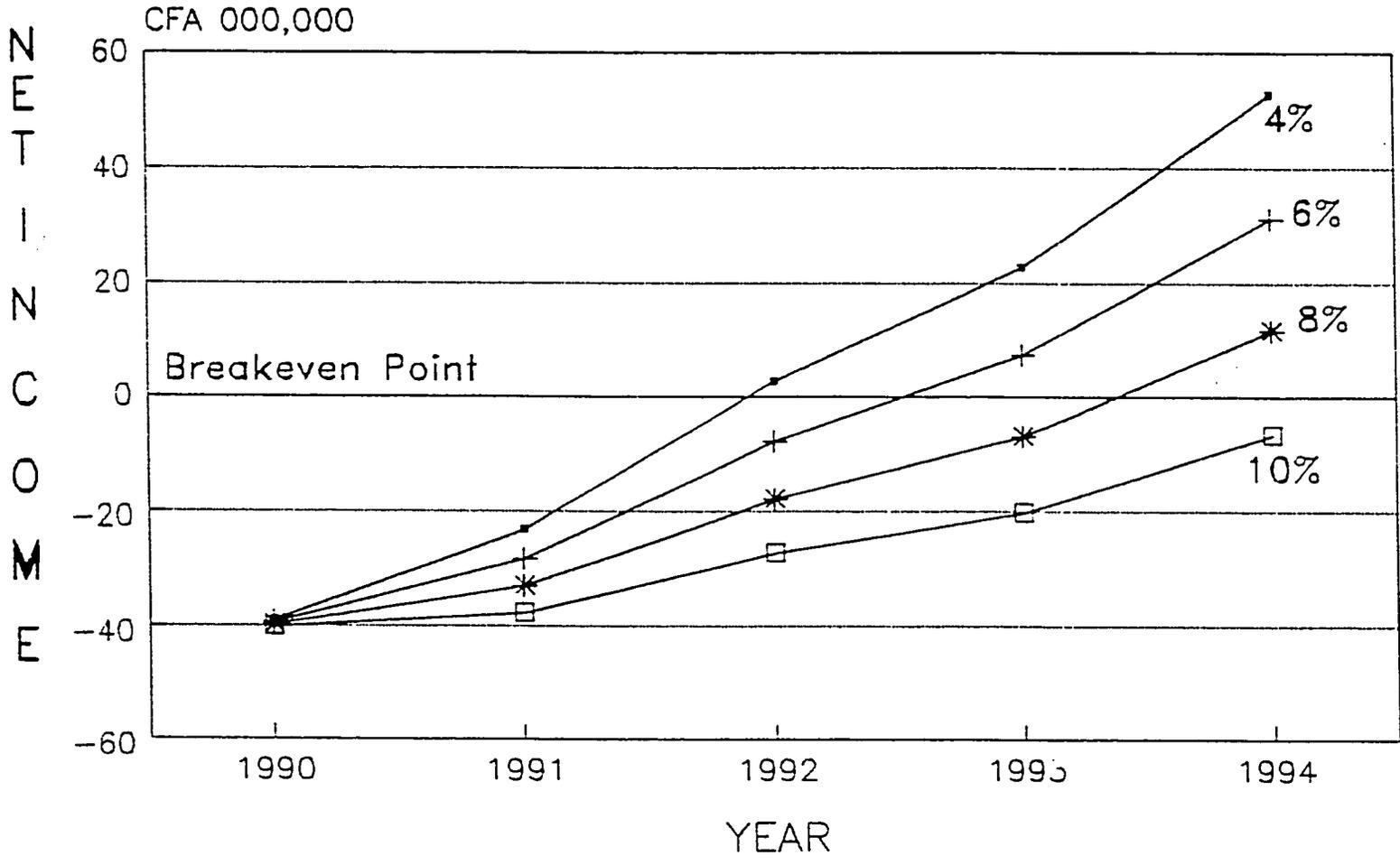
ANNEX B

REVOLVING FUND-CASH FLOW ANALYSIS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	1990
PRINCIPAL REPAYMENTS	0	0	0	0	0	0	0	1,315	2,522	3,631	4,655	5,577	17,718
INTEREST REPAYMENTS AND FEES	0	0	0	0	0	0	173	452	708	944	1,162	1,536	4,975
EST. EXPENDITURES	0	1,617	2,574	3,363	3,363	4,319	4,420	4,420	4,420	4,420	4,420	4,420	41,754
REPAYMENTS TO REVOLVING FUND	0	0	0	0	0	0	173	1,767	2,230	4,575	5,815	7,133	27,693
BEGINNING BALANCE				0	0	0	0	285,773	272,923	261,318	250,836	241,367	0
EST. NEW LOANS	0	0	0	0	0	0	54,400	14,616	14,835	15,058	15,284	28,913	104,104
ENDING BALANCE			0	0	0	0	285,773	272,923	261,318	250,836	241,367	218,587	218,587
ADD. CAPITAL REQUIRED							300,000						300,000
CON. EST. EXPENDITURES	0	1,617	2,574	3,363	3,363	4,319	4,420	4,420	4,420	4,420	4,420	4,420	41,754

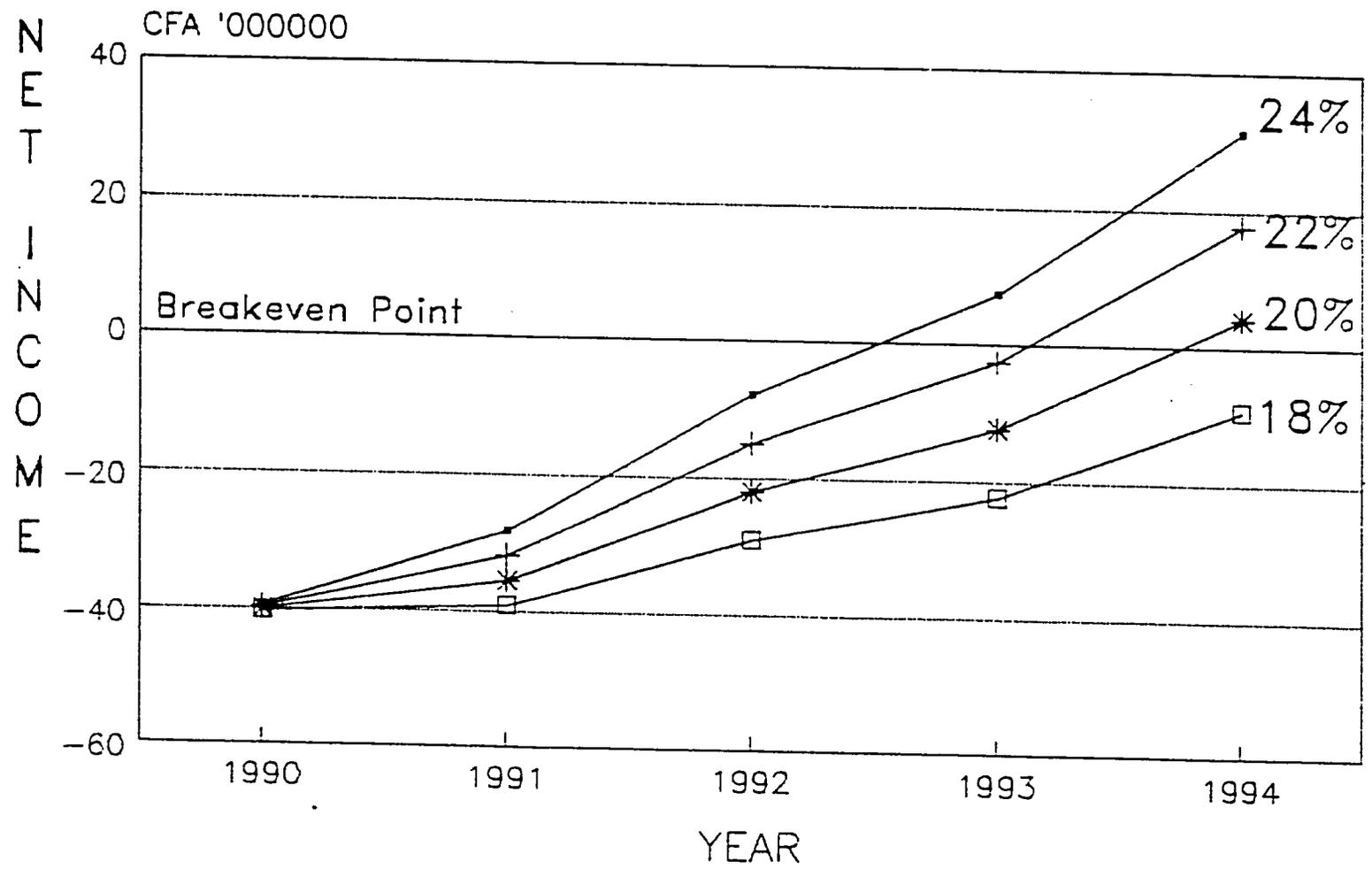
REVOLVING FUND-CASH FLOW ANALYSIS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	1991
PRINCIPAL REPAYMENTS	7,784	7,895	11,367	13,714	15,447	17,076	18,611	20,360	21,432	22,733	23,978	25,161	207,737
INTEREST REPAYMENTS AND FEES	2,001	2,453	2,871	3,265	3,635	3,984	4,312	4,623	4,917	5,198	5,466	5,721	48,444
EST. EXPENDITURES	4,618	4,618	4,618	4,618	4,618	4,618	5,032	5,032	5,032	5,032	5,032	5,032	57,897
REPAYMENTS TO REVOLVING FUND	7,786	12,345	14,738	16,777	19,083	21,060	22,723	24,083	26,347	27,731	29,441	30,882	238,292
BEGINNING BALANCE	218,587	198,011	179,540	162,999	148,230	135,088	123,440	113,164	104,151	96,298	89,447	83,586	218,587
EST. NEW LOANS	36,362	38,817	31,279	31,748	32,225	32,708	33,199	33,697	34,202	34,781	35,303	35,832	398,153
ENDING BALANCE	198,011	179,540	162,999	148,230	135,088	123,440	113,164	104,151	96,298	89,447	83,586	78,636	78,636
ADD. CAPITAL REQUIRED													0
CON. EST. EXPENDITURES	46,372	50,998	55,607	60,225	64,843	69,460	74,072	79,524	84,556	89,588	94,620	99,651	99,651

REVOLVING FUND-CASH FLOW ANALYSIS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	1992
PRINCIPAL REPAYMENTS	26,234	27,595	29,048	30,434	31,760	33,033	34,256	35,436	36,578	37,684	38,766	39,824	400,710
INTEREST REPAYMENTS AND FEES	5,994	6,202	6,415	6,614	7,201	7,476	7,742	7,998	8,246	8,488	8,725	8,955	90,658
EST. EXPENDITURES	5,285	5,285	5,285	5,285	5,285	5,285	5,285	5,285	5,285	5,285	5,285	5,285	63,418
REPAYMENTS TO REVOLVING FUND	32,288	33,697	35,663	37,349	38,961	40,509	36,713	38,150	39,539	40,887	42,298	43,494	427,950
BEGINNING BALANCE	78,636	72,192	64,437	57,923	52,411	47,869	44,223	36,118	28,777	22,143	16,076	10,624	78,636
EST. NEW LOANS	38,732	41,603	42,227	42,560	43,503	44,156	44,819	45,470	46,173	46,954	47,659	48,374	532,550
ENDING BALANCE	72,192	64,437	57,923	52,411	47,869	44,223	36,118	28,777	22,143	16,076	10,624	5,745	5,745
ADD. CAPITAL REQUIRED													0
CON. EST. EXPENDITURES	104,936	110,221	115,506	120,791	126,076	131,361							

SENSITIVITY ANALYSIS – DAKAR SSE CREDIT Breakeven Point Using Dif Default Rates



SENSITIVITY ANALYSIS-DAKAR SSE CREDIT Breakeven Point Using Dif Interest Rates



ANNEX CREVISED PROCUREMENT PLAN FOR DAKAR SSE CREDIT EXPANSION

Description	Quantity	App. Price \$	Source/ Origin	Required Delivery Date	Responsible Officer
1. <u>2WD Vehicle</u>	2	\$30,000	935*	Jan. 90	NTF/MU
2. <u>Vehicle Support:</u> N.B. - Spare parts - fuel + - repair + - insurance		0	935*	Jan 90/ March 93	NTF/MU
3. <u>Computer System</u> AT class IBM compatible and accessories	2	20,000	000/935	Jan. 90	NTF/MU
4. <u>Other Office Equipment</u> - Small Office desk + 2 chairs	8	20,000	000/935	Jan. 90	NTF/MU
- Office desks+chairs	7	24,000	000/935	Jan. 90	NTF/MU
- Computer desk, chairs+ covers	2	2,000	000/935	Jan. 90	NTF/MU
- Large filing cabinets	10	25,000	000/935	Jan. 90	NTF/MU
- Typewriters	2	3,000	000/935	Jan. 90	NTF/MU
- Photocopier	1	4,000		Jan. 90	NTF/MU
- Large safe	1	2,000	000/935	Jan. 90	NTF/MU
- Small safe	9	5,000	000/935	Jan. 90	NTF/MU
- Initial Office suppliers	-	20,000	000/935	Jan. 90	NTF/MU
<u>Total:</u>		\$155,000			

N.B. - Vehicle support expenses are included in line item "Operational Costs".
- All procurement for the Dakar expansion will be made with Development fund for Africa (DFA) funds.

ANNEX D

INITIAL ENVIRONMENTAL EXAMINATION, AMENDMENT TWO

Project Country: Senegal
Project Title: Community and Enterprise Development (685-0260)
Funding: \$13,729,000
Life-of-Project: FY 1983 - FY 1993
IEE Amendment Prepared by: William Hammink, USAID/Senegal PDO
Environmental Actions Recommended:

1. Negative Determination
2. Risk-Benefit Analysis IEE for Pesticides as shown in Project Paper Annex 16

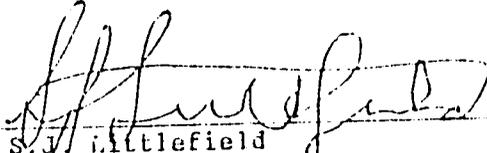
DISCUSSION: The Community and Enterprise Development (CED) Project Paper (PP) Supplement approved by the Mission on April 13, 1989, included IEE Amendment Number One for the increased LOP funding and extension which was approved by the Mission Director and concurred in by the Africa Bureau Environmental Officer (BEO) (89 STATE 108808) and the Regional Legal Advisor.

IEE Amendment Number Two is required for the planned additional extension and expansion of the CED project. The project will be extended for an additional 27 months, from September 30, 1991 to December 31, 1993; the life-of-project funding will increase from \$11,000,000 to \$13,729,000, an increase of \$2,729,000; and the geographic scope of the small-scale enterprise (SSE) credit component of the project will be extended to the Dakar region.

The revised project purpose is to enable village organizations and small-scale enterprises in selected regions of Senegal to manage and sustain their own development. The project will continue to focus on the ability of village organizations and SSEs to plan, manage and sustain their own development, i.e. sustainable economic growth. Only the SSE credit program will be expanded beyond the original Kaolack and Fatick regions. The project activities consist of technical assistance, training, credit, commodities and equipment. The extension of the project will include a line of credit to small and medium-scale enterprises in the Dakar region.

The IEE in the Project Identification Document included a Negative Determination with a requirement that an IEE of pesticides be included in the project paper and that deferred IEEs be done of project activities not identified at the time of the original IEE. Annex 16 of the project paper includes an amended IEE which provides a risk/benefit analysis for the use of pesticides in Senegal. The activities to be undertaken during the planned project extension are the same as previously identified.

CONCLUSION: The environmental actions recommended in the IEE, as revised in Annex 16 of the PP, remain valid for the planned project expansion.

APPROVED: 
S. J. Littlefield
Director, USAID/Senegal

Concurrence: AFR/Bureau Environmental Officer (89 STATE 276325 dated 8/29/89)

Clearance: Regional Legal Advisor, E. Dragon EAD Date 30 August 89

MAJOR FINDINGS OF INFORMAL SECTOR SURVEYS IN DAKAR
AND RECOMMENDATIONS FOR DESIGN OF DAKAR-BASED SSE LENDING PROGRAM

BY JOHN MCKENZIE, CED CONSULTANT

1. FOREWARD AND ACKNOWLEDGEMENTS

I am grateful to New Transcendy Foundation/Management Systems International and USAID for giving me the opportunity of undertaking this study for the start up of a credit operation for informal small businesses in Dakar, as an extension of the Kaolack Small Business program, as I come to the end of a four year tour of duty with the Community and Enterprise Development Project.

I am afraid the report suffers slightly because research was carried out during the holiday season when a number of government officials and managers of other small business support organizations were absent. Fortunately the small business owners were present.

I am grateful to Mr. Harold Lubell and Mr. Charbel Zarour for their help and cooperation with recent informal sector survey data. As results of this survey are still being processed, and most of the survey findings contained in this report are still in draft I trust that my own interpretations of this major piece of work are reasonably correct.

The recommendations in this report are my own and are some extent are incomplete. This is a working document for the use of project designers.

2. INTRODUCTION

A good deal of knowledge about the Senegalese informal sector, and providing credit to the sector, has been acquired during the life of the Kaolack project and much of this has been documented. A proposal has now been made to establish a small business credit operation in Dakar based on the model of the Kaolack SSE program. The purpose of this report is to analyse the potential for the Kaolack model in Dakar, at the client level and at the operational level, then to address the practical issues of setting up such an operation.

In cases where the Dakar context poses new challenges, the report makes practical recommendations how the Kaolack model can be changed or adapted. This report is therefore a working document describing how such a credit program can be established, given the opportunities and constraints of the Dakar setting, and does not address issues of why such an activity should be promoted or for what reasons.

3. METHODOLOGY

As the Informal Sector of Dakar has been the subject of two comprehensive studies using field based questionnaires, there has been no need to conduct further surveys for the purposes of this report.

In order to substantiate findings of previous surveys, and to gather additional anecdotal evidence, meetings and field interviews with informal business owners were conducted during a one-week period. Several organizations already work with the Dakar informal sector in various ways, and their managers were interviewed to gather data and discuss any potential for future collaboration. This study analyses the Kaolack experience in light of findings from the sources mentioned above.

4. OBJECTIVES OF THE STUDY

The objectives of this study in line with the terms of reference are as follows:

- (1) To establish the level of need for informal sector credit in the Dakar region, and the nature of that need.
- (2) To propose a strategy for the start up of a self sustaining/profit making small business credit operation/institution based on the Kaolack model, identifying those features that are potentially replicable or recommending new features to meet the demands of the Dakar context.
- (3) To make recommendations concerning operational linkages between the Dakar program and the Community and Enterprise Development Project, Kaolack, and also with other similar operations in Dakar.

5. CHARACTERISTICS OF DAKAR INFORMAL SECTOR SMALL ENTERPRISES: FINDINGS OF SURVEYS

For the purpose of clarity, terms used in this text are defined as follows:

Informal Sector: In the Senegalese context, informal sector businesses are those managed in a traditional fashion, often without formal management systems or accounts, involving family members as unremunerated employees, not conforming to tax and labor regulations required of large modern sector businesses. Such businesses do not usually operate outside of the law as legal requirements are relatively light.

Small Business: All informal businesses in Senegal are small by U.S. standards and most conform to USAID's definition of a microenterprise. Because some informal businesses employ more than 20 people and have sales turnover in excess of CFA 20 million a year the term small business has been used as a collective term, instead of microenterprise.

Two recent surveys have provided a comprehensive body of information on Dakar informal sector businesses. The most detailed of these studies has been recently conducted for USAID by Charbel Zarour, May 1989, and is an in-depth investigation of 558 informal artisanal businesses (referred to in the text as Zarour study).

Another is a study of 100 informal small businesses (42 commerçants, 46 artisans and 12 service enterprises) conducted by ABC consultants for the C&EDP options study in February 1988 (referred to in the text as ABC study).

Both of these surveys target business owners with fixed premises, therefore peddars, people working from home and others, are not included.

The small businesses surveyed in these recent studies and observed during recent field interviews in Dakar, are remarkably similar to those encountered (and financed) in the Kaolack-Fatick region. This is unsurprising in-so-far as the types of businesses, and their clients do not change greatly from one region to another. Because the Dakar market is large and diverse, however, there is a tendency for greater variation in size and specialisation of businesses and less of a rural/agricultural bias to activities, than in the Sine-Saloum.

Some of the common characteristics revealed by recent studies are as follows:

LITERACY AND EDUCATION OF BUSINESS OWNERS

In Zarour's study, 35 percent of respondents could read and write in French, 70 per cent had studied in Koranic school and 22 per cent had received no form of education at all. In ABC's study, 57 per cent of respondents could read and write in French, 54 per cent could read and write in Arabic and 15 per cent were illiterate; 78 per cent had attended Koranic school. With regard to vocational training, in ABC's study 67 per cent of the sample were apprenticed for an average period of six years and 12 per cent had received formal technical training.

SEX OF ENTREPRENEURS

In Zarour's study 93 per cent of Entrepreneurs interviewed were male. In ABC's study, exactly the same proportion, 93 per cent, were men. This figure almost certainly understates the importance of women in the informal sector particularly in activities such as tailoring and needlework, home-based commerce, restaurants etc. The figure does reflect, however, the strongly traditional nature of Senegalese society with regard to men's and women's roles.

USE OF BOOK KEEPING AND ACCOUNTS

In Zarour's study only 3 per cent of respondents had a developed accounting system; 27 per cent of respondents kept an order book and 41 per cent an invoice book. In the ABC study 41 per cent of the business owners interviewed kept some form of books, predominantly for registering purchases and sales.

USE OF BANK ACCOUNTS

In Zarour's study, 29 per cent of the respondents had savings or bank accounts. In ABC's study 43 per cent of the sample had bank accounts; whereas 53 per cent of commerçants interviewed had bank accounts, only 37 per cent of Artisans had the same. The use of bank services in Dakar is undoubtedly more important than in Kaolack because of availability of such services.

TAX STATUS

In Zarour's study 33 per cent of interviewees paid a monthly municipal business tax (Patente). Virtually no one paid other taxes such as the Service Tax (TPS), income tax (GIR), corporate tax (BIC), stamp duty, Insurance (IPRES), or social security.

THE ROLE OF THE FAMILY IN THE BUSINESS

In the context of the Kaolack program we have noted a very close link between business and family and evidence of a similar situation exists in Dakar. In Zarour's study 70 per cent of the business owners responding employed members of their own family, and 78 per cent employed relatives.

EMPLOYEES AND APPRENTICES

In Zarour's study the average number of employees besides the owner, per business was 5.8, of whom 4.7 (or 81 per cent) were apprentices. In ABC's study the average number of employees per business was 3 people, (1 person for commercial businesses, 4 people for artisans); of all employees, 71 per cent worked as non-salaried family help, or apprentices.

AVERAGE TURNOVER

In Zarour's study, the average annual turnover (based on the business owner's declaration for a normal week) for an enterprise was CFA 4.7 million. In ABC's study the average annual turnover by the same method was CFA 6.6 million, however the average annual turnover for Artisans was CFA 4.9 million and for commercants was CFA 9.8 million.

AVERAGE AGE OF BUSINESS OWNERS AND BUSINESSES

In Zarour's study 44 per cent of business owners were 25 to 34 years old, 29 per cent were 35 to 44 years old, and only 8 per cent were younger than 25 years old. Regarding the businesses themselves, 79 per cent had been in existence for more than 2 years, 53 per cent for more than 5 years and 29 per cent for more than ten years. In ABC's study the average age of the enterprises surveyed was 12 years old. 12 per cent had started within the last 2 years.

6. INFORMAL SECTOR BUSINESS SOURCES OF FINANCING AND CREDIT: FINDINGS OF SURVEYS

Despite the existence of numbers of different banks and other financial organizations in Dakar, few informal sector enterprises have access to them. In this way the situation of informal small businesses in Dakar is very similar to that in Kaolack.

SAVINGS AND PROFITS

The major source of informal business financing is from savings or retained profits. In Zarour's study 80 per cent of respondents used savings as the primary source of financing to start up their business. 90 per cent used savings or retained profits as the primary source of subsequent investments in the business.

THE FAMILY

In Zarour's study, 17 per cent of interviewees started their businesses using the family as their primary source of finance, and 56 per cent as their secondary source. When making subsequent investments 5 per cent used the family as a primary source of finance. In ABC's study 4 per cent of the interviewees had received loans from their family, and 6 per cent from friends. These loans were free of interest.

COMMERCIAL BANKS

In Zarour's study only 1 business owner out of 533 had used bank credit as a primary source of finance for starting up his business, and only 1 business owner used it as a primary source for subsequent investment. Although 86 per cent of business owners said that they wished to obtain a bank loan only 11 per cent had actually tried to obtain one, of which 2 per cent had succeeded (10 people). In the ABC study, 5 per cent of the respondents (5 people) had managed to obtain bank loans.

MONEY LENDERS

The money lender is an institution that is little developed in Senegal. In Zarour's study, only 4 persons out of 533 used the money lender as a primary source of financing to start up their business, but 6 people used one as primary financing of subsequent investments.

Only 1 person, 1 per cent of the sample, had borrowed from a money lender in ABC's study.

SUPPLIER CREDIT

In ABC study, 43 per cent of respondents bought goods on credit from suppliers. Of the commercants interviewed, 62 per cent bought goods on credit, of artisans 30 per cent. Normal terms of credit were sixty days. In 23 per cent of cases the goods bought on credit were more expensive - at an average of 30 per cent more expensive- than the same items bought for cash.

LOANS FROM ASSOCIATIONS, CO-OPERATIVES, GOVERNMENT PROGRAMS OR FROM DONORS

In Zarour's study a small number of respondants cited associations, cooperatives, government programs and donors as sources of loans.

7. THE NEED FOR CREDIT: FINDINGS OF SURVEYS

In Zarour's report 40 per cent of the respondants cited "lack of funds" as the most serious problem facing their business. 86 per cent declared a wish to obtain a bank loan and 77 per cent to obtain some financial help from the government. 55 per cent of respondants declared plans for investing during the forthcoming months. (However 32 per cent of this group, 90 people, said optimistically that the financing for such investments would come from government aid).

In the ABC study only 2 per cent of the survey sample had no idea what sort of changes they could make to improve their business; 76 per cent wished to buy more equipment, machinery or stock and 36 per cent wished to make improvements to their workshop or shop.

8. DAKAR: ASSESSMENT OF THE MILTEU**8(i) OPPORTUNITIES FOR INFORMAL SMALL BUSINESS**

Dakar contains 34 per cent of the population and 90 per cent of Senegal's industrial firms. In 1983 the working population of the Dakar region was estimated at 700,000 persons, and 140,000 persons were employed in the modern sector. Assuming there was no unemployment at that time, this means 80 per cent of the workforce was employed in the informal sector. Since 1983 this share has probably been growing as the working population has expanded while the government administration has been shedding jobs and growth of the modern private sector has been stagnant.

The informal sector in Dakar is extremely large and dynamic. A census of microenterprises conducted by Charbel Zarour in 26 quarters (neighborhoods) of Dakar in November 1988 enumerated 29,616 businesses involved in manufacturing, construction, services, commerce and transport in 85 different types of activity. Whereas in Kaolack and Fatick small business opportunities revolve around the provision of goods and services to the local population or to the agriculture sector, in Dakar the variety of opportunities is highly diversified. Potential markets are provided by the industrial sector, the international community, tourists, the administration, the agricultural sector, the port, not to mention the needs of a large urban population. For example, Dakar has 74 permanent markets which satisfy most of the people's daily needs. In Zarour's study of 558 Informal Artisans, respondents, were asked to state the relative importance of different types of client, and the responses were as follows:

CLIENT TYPE	NUMBER OF BUSINESSES STATING THIS WAS MOST IMPORTANT CLIENT
Small Artisans	63
Small Commerçants	144
Functionaries and Big businesses	131
Intermediaries	18
Other Individuals	333

These figures indicate the complexity of the market for informal sector goods and services. It is striking, for example, that the major proportion of artisanal production is sold for re-sale and not directly to the end user.

During field interviews with small business owners, lack of clients was never cited as a constraint and many of the younger more organized business people had plans for expanding their existing clientele.

8(ii) ORGANIZATION OF THE INFORMAL PRIVATE SECTOR

Far from being fragmented and inter-competitive, small businesses in the informal sector appear to be well organized and mutually supportive. Businesses can be split into two broad groups of commerçants and artisans. The commerçants, primarily based in Sandaga market, are predominantly Mouride. The most important association of commerçants is a syndicate called the Bureau Federale de Touba Sandaga. This group is extremely entrepreneurial, with

members doing business all over the world, yet is highly traditional. Artisans tend to be less wealthy and less well-organized. The umbrella organization that unites informal sector businesses is known as the GES (Les Groupements Economiques Senegalaises). The GES was formed as a syndicate to represent the interests of Senegalese businessmen in 1962 (in the same way that the Comite National du Patronat (CNP) represented the interests of French and Lebanese businesses). It now has 10,000 members belonging to eight federations that bring together an entire range of commercial, artisanal and service activities, and includes a federation of women. The Bureau Federale de Touba Sandaga is an affiliated organization and its members are also members of the Federation of Commerçants. The GES defends the interests of its members before the government and the modern private sector. It also provides a structure within which smaller members can have access to advise, legal council and assistance from more powerful members. Indeed, because of the tendency within Senegalese society for organization into groups, informal sector business owners tend to form part of a hierarchy in a loose overall structure.

Of course traditional religious affiliations and extended family ties serve to strengthen this structure. Within the framework of these organizations, modern and traditional business practices come together. For example an important Dakar businessman whose principal concern is a large modern travel agency also owns two provisions stores informally run by his relatives in Pikine. A mouride merchant from Sandaga wishing to buy Italian shoes may finance his deal in traditional fashion by taking a suitcase of CFA Francs to the Gambia, changing it, and then flying on to Naples with dollars; or with the help of associates may use a more formal method such as opening a letter of credit with Citibank.

8(iii) THE CREDIT SQUEEZE

The banks and other formal institutions are not adapted nor have any interest in lending to the informal sector. Until recently larger Senegalese businesses served as intermediaries, passing on credit to smaller ones. Recently, however, two events have disrupted this situation:

(1) A Liquidity Crisis at the Bank

Only four banks are operational in Dakar at present (SGBS, BICIS, Banque Senegalo-Tunisienne and CITIBANK). Available credit is being passed on to (safe) large modern enterprises, and facilities to locally owned businesses have been increasingly restricted.

(2) The Mauritanian problem and supplier credit

During April 1989 Mauritanian corner stores were ransacked throughout Senegal and goods were looted. Many of these items were goods supplied on credit by large manufacturers, who suffered substantial losses. For example MTOA, the cigarette manufacturer, lost CFA 1,5 billion and CODIPRAL (Nestlé) lost CFA 500 million, amongst others. These companies are now no longer able to supply goods on credit. The situation has been further aggravated because following the departure of the Mauritanians, wholesalers in the grocery business have started opening retail outlets. This has tied up their capital and eliminated their potential for offering credit to other retailers.

Interviews with business owners in other sectors indicate a similar tightening of supplier credit, for example in the construction business suppliers will only provide well established customers against contracts and then at a premium, (a tonne of cement costs CFA 41,000 for cash, CFA 45,000 on credit).

8(iv) PROVISION OF CREDIT TO INFORMAL SMALL BUSINESS: OPPORTUNITIES AND RISKS

Despite the recent credit squeeze, purchasing power of the population as a whole has been maintained and the outlook for informal sector small businesses seems reasonable. There appear to be opportunities for small businesses in the market place, and entrepreneurs with adequate experience to exploit them, but limited financial means and no access to credit. The start up of a well managed credit operation at this time could be highly auspicious.

During the course of the study I was warned on numerous occasions of the untrustworking nature of informal business owners in Dakar and the prospect of making loans to clients who were actually no more than front-men for shadowy commerçants, with all the inevitable consequences. Although the urban milieu is unforgiving and Dakar businessmen are reputed to be sharp dealers, serious problems of misappropriation of funds can be avoided if:

- The credit operation knows who it is lending to
- Solid loan guarantees are legally taken
- Loan projects are correctly analyzed and proven viable

To ensure that these conditions are met in the Dakar context, two modifications to the Kaolack model are proposed.

The first is that the Dakar credit operation should use existing associations of informal businesses, such as the GES, to provide character references on people applying for loans. The second is that, as well as using guarantee procedures tested in Kaolack, all clients should be required to join a "Groupement de Caution Mutuelle" and to pay a monthly subscription into a loan guarantee fund. Details of this mechanism are explained in the strategy recommendations.

Risk and knowledge are closely associated. The risk of dealing with Dakar business owners will diminish as the program staff understands how the informal sector operates and establishes working relationships with its clients. The quickest way of acquiring such knowledge is by co-opting local business associations.

The possibility of such collaboration was raised with the GES secretariat. Particularly in light of the recent credit squeeze the GES wish to find new mechanisms of providing credit to their members. For example GES members have already contributed into a loan guarantee fund for smaller businesses held in an account at the SONABANQUE to a value of CFA 30 million. The GES secretariat said that it was open to the possibility of a cooperative relationship with any future credit structure.

9. STRATEGY: RECOMMENDED PROGRAM

9(i) OBJECTIVES

The strategy recommended here aims to fulfill the objectives for the Dakar extension of the C & EDP as follows:

1. To establish a profitable privately owned financial institution capable of maintaining small business credit activities after end of project.

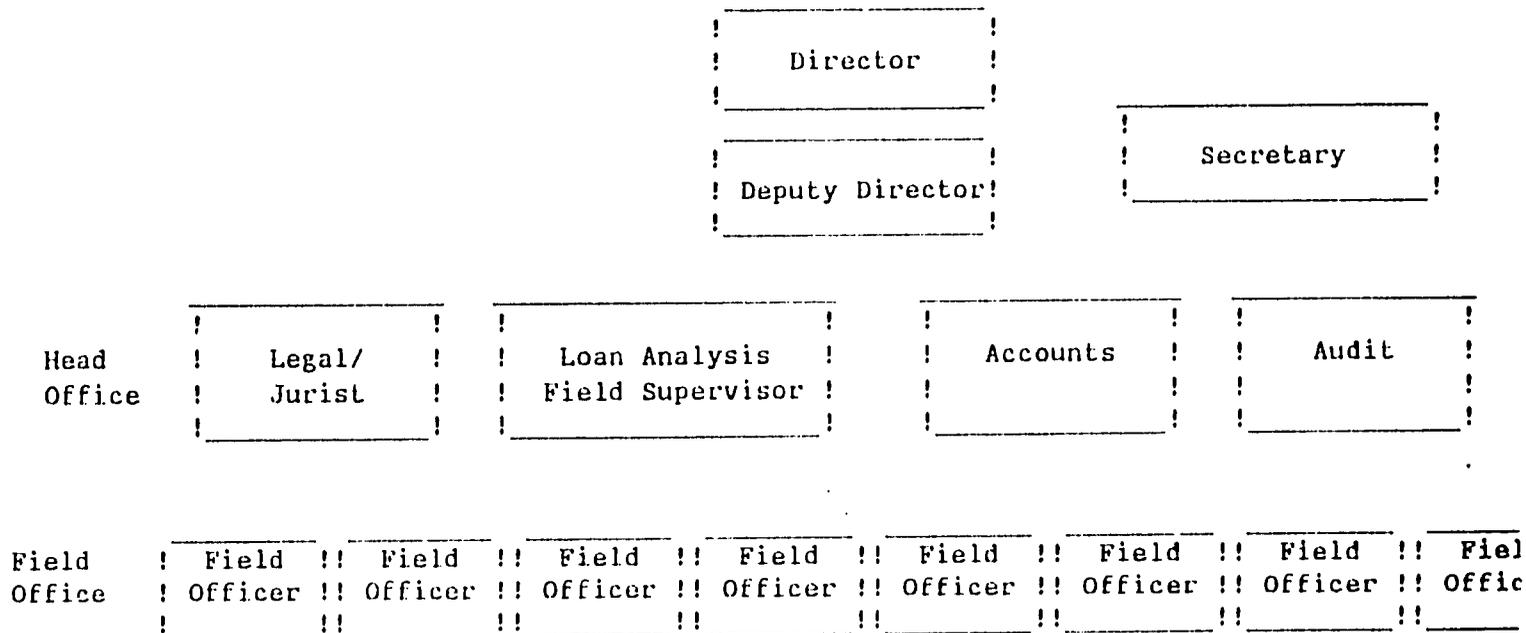
2. To prove the potential of lending to informal sector SSEs profitably in the Dakar region and to establish appropriate procedures, manuals and a credit management system so that the activity can be replicated in other, mainly urban, areas of Senegal.

Hoped for targets are that the credit operation will be profitable by the end of 1992, and that during three years of operation, 1990-1992, 800 loans to a value of CFA 1.1 billion will be granted with the creation of 1,280 jobs.

STAFFING

Because the Dakar credit operation will adopt the basic systems and procedures already being tested in the Kaolack program it will probably adopt a similar management structure. The staff, however, are likely to be more highly qualified and the salary structure may be different.

The proposed organizational structure is as follows:



The Director

The Director of the credit operation will probably be an expatriate during the "project" phase, until the activity is institutionalized. The Director will be responsible for all aspects of the credit operation, staff management and administration.

The Deputy Director

The Deputy Director will be have substantial administrative experience in a credit or financial institution, with knowledge of small business and the informal sector, and will be a Senegalese national. He or she will be a probable candidate for the post of Director, once the "project" phase ends and the activity is institutionalized. Salary level 350 - 400.000/month.
Loan Analyst/Field Supervisor

The Loan Analyst/Field Supervisor will be responsible for supervising the Field Officers and their offices, and for checking all loan dossiers before they are presented to the Loan Committee. The Loans Analyst/Field Supervisor will have the equivalent of a University degree and be experienced in small business finance and loan analysis. In addition to field work he will also be responsible for technical training of staff. Salary level CFA 250.000-300.000/month.

Jurist/Legal Officer

The Legal Officer will be responsible for evaluation of guarantees/collateral, preparation of guarantee and loan contracts, follow up of arrears and resolution of bad debts. The legal officer should have a Matrise en Droit and some previous experience with a bank's legal department. Salary level about CFA 200.000 per month.

Accountant

The accountant will be responsible for updating financial records including the loan tracking system and for producing regular reports on the status of the loan portfolio, income statements and balance sheets. The Accountant will be fully qualified and have a minimum of 5 years experience of double entry book keeping and of working with credit accounts. Salary level CFA 250.000-300.000 per month.

Auditor

The auditor will be an internal controller whose role is to run continual spot-checks on the loan approval, repayment and arrears status, and on the general management of the credit operation's resources. The auditor will be a qualified accountant with at least one year experience at audit. Salary level CFA 150.000-200.000 per month.

Field Officer

The Field Officer will be responsible for client selection, analysis of loan dossiers, follow up of loan repayments and client after-care, within a defined geographic zone. Field Officers will normally have university qualifications to Masters level as well as experience with small businesses. Given the field-based nature of the work, candidates with a practical approach, commercial mind, and common touch should be selected, as opposed to intellectuals or other graduates suffering from what is referred to locally as "deformation universitaire". It will be practical to select younger candidates and train them from scratch. Salary level CFA 120.000 per month (with opportunities for results-oriented bonuses).

The job profiles, qualifications and salary levels mentioned above are based on responses from managers of banks, accounting firms, and other organizations in the field of small business promotion. The Kaolack program started up with a "project" salary structure, that is now under review so profitability can be attained. Salaries in Dakar should reflect market rates from the outset. The long term objectives of the Dakar credit operation is advantageous as job seekers in Senegal often put their long term prospects over salary in their choice of employment.

STAFF TRAINING

Client selection and Loan Analysis techniques have been one of the successful features of the Kaolack program. Field Officers (Conseillers in the Kaolack context) are trained during a six month apprenticeship in such techniques both in the class room and in the field. A detailed training manual with course outline, session guides, case studies, simulations and other exercises is now in preparation. This manual may be used as a training guide for the newly recruited Dakar field officers (when and if it is completed).

The training program is structured in a modular fashion. Each module focuses on a set of particular skills that the trainee must acquire and involves several days of classwork followed by 2 to 4 weeks practical application in the field. For the first batch of trainees, attachment to Kaolack field offices for practical training in loan analysis will facilitate the Dakar start-up. In the start-up phase it is also recommended that trainee field officers conduct a baseline study of businesses in their new zones, preparing income statements and balance sheets as well as collecting employment statistics and other data. Such a study serves the purpose of giving the field officers practical experience in business analysis, and also provides the credit operation with a mass of data which can be used as a benchmark for measuring impact at a later date. Such a study also serves as an opportunity for the field officer to meet potential clients and inform them about the new credit operation.

LOCALIZATION OF OFFICES

Because activities are concentrated, distances short and means of transport are easily available in Dakar, various configurations for the localization of offices are possible. It is feasible, for example, to have one central office as do SONAGA or SOFISEDIT. The recommended strategy, however, is that a system of decentralized field offices be adopted. The head office, housing the director, and senior staff with a conference room for training and credit committee meetings, should be located in a place convenient to clients, to public transport, etc., but not necessarily in the central business district or in a high rent zone. It is also possible for the head office to incorporate a field office. Modest, shop front, field offices should be opened in areas where informal sector businesses are heavily concentrated. The advantages of such an arrangement are:

- Field Officers are easily accessible to clients at all times
- Officers are field based and time is not wasted at head office or travelling
- Field Office rental costs are more economical than accumulated transport costs.

- Field Office provide staff with autonomy and encourage personal initiative; they are also easily set up as "profit centers" (see on).

DEFINITION OF ZONES

It is recommended that the Dakar region be divided into zones, and each zone be administered by a field office with one field officer. Within each zone the field office should be located where businesses are most heavily concentrated, at a spot that is easily accessible. Seven zones have been defined, and this configuration assumes a staff of 8 field officers, seven of whom will be deployed, the eighth being a "floater", attached to the busiest field office.

The definition of zones was based partly on results of Charbel Zarour's census of November 1988 (see Appendix 2) partly on observations in the field, and partly on the physical layout of the region, as follows (please refer to map on next page)

ZONE I: Dakar Center, Plateau and Environs.

This zone covers central Dakar including Sandaga Market.

ZONE II: Medina Rebeuss, Fann Hock, Fass.

This zone contains the heaviest concentration of small businesses in Dakar and includes Soumbédioune Market.

ZONE III: Zone Industrielle + port, Route de Rufisque, Hann, Dalifor

This zone contains an important concentration of artisanal activity related to the industrial zone.

ZONE IV: Grand Dakar, Colobane, Bopp, the Sicaps, the HLM's.

This zone covers the popular neighborhoods and includes the HLM market

ZONE V: Grand Yoff, Parcelles Assainies, Yoff, Cambérène.

This zone encompasses the large new residential areas

ZONE VI: Pikine, Guediawaye

This zone covers the dormitory towns of Dakar

ZONE VII: Thiaroye, Yeumbeul

This zone covers the industrial region and garden areas.

ZONE VIII: Rufisque

STAFF MOTIVATION: BONUS MECHANISMS/PROFIT CENTERS

One of the positive features of the Kaolack program has been its incentive scheme for field staff. An incentive scheme helps to motivate staff, encourages client follow-up ensuring high loan repayment rates and tends to operate against corrupt practices.

The job profiles, qualifications and salary levels mentioned above are based on responses from managers of banks, accounting firms, and other organizations in the field of small business promotion. The Kaolack program started up with a "project" salary structure, that is now under review so profitability can be attained. Salaries in Dakar should reflect market rates from the outset. The long term objectives of the Dakar credit operation is advantageous as job seekers in Senegal often put their long term prospects over salary in their choice of employment.

STAFF TRAINING

Client selection and Loan Analysis techniques have been one of the successful features of the Kaolack program. Field Officers (Conseillers in the Kaolack context) are trained during a six month apprenticeship in such techniques both in the class room and in the field. A detailed training manual with course outline, session guides, case studies, simulations and other exercises is now in preparation. This manual may be used as a training guide for the newly recruited Dakar field officers (when and if it is completed).

The training program is structured in a modular fashion. Each module focuses on a set of particular skills that the trainee must acquire and involves several days of classwork followed by 2 to 4 weeks practical application in the field. For the first batch of trainees, attachment to Kaolack field offices for practical training in loan analysis will facilitate the Dakar start-up. In the start-up phase it is also recommended that trainee field officers conduct a baseline study of businesses in their new zones, preparing income statements and balance sheets as well as collecting employment statistics and other data. Such a study serves the purpose of giving the field officers practical experience in business analysis, and also provides the credit operation with a mass of data which can be used as a benchmark for measuring impact at a later date. Such a study also serves as an opportunity for the field officer to meet potential clients and inform them about the new credit operation.

LOCALIZATION OF OFFICES

Because activities are concentrated, distances short and means of transport are easily available in Dakar, various configurations for the localization of offices are possible. It is feasible, for example, to have one central office as do SONAGA or SOFISEDIT. The recommended strategy, however, is that a system of decentralized field offices be adopted. The head office, housing the director, and senior staff with a conference room for training and credit committee meetings, should be located in a place convenient to clients, to public transport, etc., but not necessarily in the central business district or in a high rent zone. It is also possible for the head office to incorporate a field office. Modest, shop front, field offices should be opened in areas where informal sector businesses are heavily concentrated. The advantages of such an arrangement are:

- Field Officers are easily accessible to clients at all times
- Officers are field based and time is not wasted at head office or travelling
- Field Office rental costs are more economical than accumulated transport costs.

LENDING POLICY

The Dakar credit operation should begin by using the same lending policies that have been tested in Kaolack with some success, as follows:

- Only Senegalese citizens are eligible
- Loans will not be approved for new or start-up businesses but only for developing existing businesses with a track record of at least 2 years.
- Loans will be used for profit generating projects and loan repayments will be scheduled according to the project cash-flow (ie loan projects will pay for themselves).
- All types of loan projects will be considered and profitability of the proposal will be the primary consideration. Credit will not be "directed".
- The interest rate will be the highest permissible by law, currently 24 per cent.
- The minimum loan amount permissible will be CFA 200.000.
- First time loans will be approved for periods up to 12 months and for amounts not exceeding CFA 3 million. Subsequent loans may be for longer periods for amounts exceeding CFA 3 million, depending on the needs of the activity to be funded.
- Loans will only be granted against solid guarantees.

N.B. Dakar Business people are well informed about interest rates and other regulatory issues. Even so, declaring a 24 per cent interest rate and then charging an effective rate of 13.5 per cent on a declining balance, as we have done in Kaolack, is poor marketing. The Dakar program should take a fresh look at legal requirements viz à vis how it can package its services in a way that is attractive to the client. This should be clearly thought out before any sort of promotion or contact with clients is initiated because it will be the subject of the first questions raised.

LOAN PROJECT APPRAISAL

As the characteristics of Dakar informal business closely resemble those of Kaolack (literacy, book keeping, etc.), the Dakar credit operation can adopt the standard loan appraisal techniques used by the Kaolack program and adapt them as necessary over time. The appraisal dossier is suitable for businesses without accounts, particularly for the analysis of loan projects of a seasonal nature (a season or a year being a realistic timeframe for most informal business owners without books). If in future the Dakar credit operation seeks to make long term investments, then a new appraisal format will need to be developed.

PROMOTION

In a start up phase the Dakar credit operation will need to inform its potential clients as rapidly and effectively as possible. Because the target audience has had little prior experience with credit, the most effective means of communication is word of mouth and involves dialogue. Question and answer sessions can either be handled on an individual visit basis, or by meetings organized with existing business associations such as the GES and the Chambre de Metiers.

LOAN COLLATERAL/GUARANTEES

During the course of the study it has been made clear that loan clients in Dakar will not respect their engagements to repay unless they have been legally committed to providing solid guarantees.

Finding solid collateral that has value according to the conditions of commercial banks can often prove difficult for small business owners. In Zarours's study of informal artisans of May 1989, 273 respondents out of 437 said that they had not applied for a bank loan because they believed they were unable to provide solid guarantees. On the other hand 263 of 558 respondents said they owned heavy equipment, and 32 owned land.

Experience in the Kaolack program indicates that most informal business owners do have access to some form of collateral either of their own, or belonging to a family member. Unfortunately, however, the market value of this collateral is often doubtful. In Kaolack the approach has been to make loan decisions on the viability of the project not value of guarantee. For the Dakar credit operation a two-pronged approach is recommended, using technical appraisal of a dossier, then collateral and a system of "Groupement de Caution Mutuelle".

(1) Mutual Guarantee Funds

The Chambre de Metiers and others have been reflecting upon the possibility of creating a société de caution mutuelle in which small business owners can invest, and which will then provide them with loan guarantee coverage to a level proportional with their investment. The major constraint to such a scheme is that central bank regulations require such a société (as a financial institution) to have a minimum capital of CFA 300 million. Such regulations put the scale of operation beyond the reach of most small business associations.

A practical alternative to this is the creation of "Groupements de Caution Mutuelle". Under this system, 5 to 12 business people who already know and have mutual confidence in one another form a legal group, possibly legally defined as a Groupement d'Interet Economique (GIE). The GIE is a legal structure with statutes and rules that govern the operation of the group. In simple terms, members of the group agree to subscribe a certain amount each month into a blocked account. Once this amount has reached a certain level this serves as a guarantee fund for a proportional loan (eg the loan may be five times the amount of the fund; to be determined). The first member of the group takes a loan. When he or she has repayed one-third of the value, the second member comes eligible for a loan to the value of the proportional value of the fund less the amount outstanding with the first member, and so on.

In case of late payment, the credit operation has automatic rights to deduct outstanding amounts from the guarantee fund. Because group members stand to rise or fall together, there is both social and financial pressure upon members to respect their commitments. These commitments are also clearly spelled out in the terms of contract legally constituting the group.

A system of Groupements de caution Mutuelle serves two additional functions. The first is that it creates a savings structure within the credit

operation (although it is not clear according to central bank regulations whether these funds can actually be used in the credit fund). The second is that the system ties local people into participation with the credit operation which is an important first step towards institutionalization.

Further information on the workings of one type of GIE structure tested in Mali can be obtained from Appendix 3. Before initiating such a program in Dakar the credit operation must ensure that legally and practically its system is simple to understand and viable. A system that is promoted and subsequently develops faults will create total loss of confidence in the credit operation.

Initiation of such a structure was discussed with members of the GES who were favourable in principle. The GES has already created its own CFA 30 million guarantee fund. The secretary general of the GES said he believed such a fund (it was not clear if he meant this or a new fund) could be used by financially weaker members who could not join groups.

(2) Other Collateral

In addition to mutual guarantee groups it is recommended that the credit operation take other forms of guarantee on an individual basis according to procedures already established in the Kaolack program. Recommended forms of collateral are:

- Contracts as collateral
- Pledge of equipment or vehicles
- Deposit of jewellery or other items of value
- Personal Guarantees with signed promissary notes.

Property deeds are not a recommended form of collateral being expensive for the client to register and difficult to sell in event of defaults. Pledge of commercial working capital for loans to merchants (nantissement de fonds de commerce) is also poor guarantee, as goods are easily liquidated prior to seizure.

Further to discussions with people experienced in recovery of guarantees in Dakar, lawyers are rarely used in the recovery process, unless there is legal contention to ownership of the collateral during the process of seizure. Most cases are dealt with directly through a Bailiff (Huissier). It is recommended that the Dakar operation deals with one young dynamic Huissier with whom it negotiates a fee proportional to recovery (normally 2 percent). Any dealings with lawyers should be negotiated on a case by case basis also on a percentage of recovery basis.

There are several debt collection agencies in Dakar of which three were visited (SAD, SIRC and SOFIA). Each agency has different terms and conditions. SOFIA for example will take on a dossier for CFA 50,000 down payment plus 9 percent of funds recovered. Terms with other agencies are negotiable (see Appendix 4).

The Dakar credit operation will be able to use contract formats developed for the Kaolack program for loans and securing guarantees.

(3) Life Insurance

The Kaolack project has a group policy with Assurances Generales Senegalaises and clients pay 0.6 percent per year to insure the value of their loan plus interest, in event of demise. The premium is payed by the client.

To date no client has died so the net gain to the insurance company has been high. If this low mortality rate among informal sector loan clients is normal, then the Dakar credit operation may want to consider setting up its own insurance account, if such is within the law.

PROCEDURES

Following a major review of the loan tracking and accounting system of the Kaolack project, new procedures have been recently put in place and are now being tested. As it is not yet clear that these are efficient or adequate, it is recommended that a review of the situation be carried out by the Dakar Director on his arrival in country.

In Dakar banking facilities are easily available unlike rural Kaolack where services are poor. Cash transactions (disbursement and repayment of loans) need not be handled by project personnel and this removes a large administrative burden from the management of the Dakar credit operation. In this case, a major part of Kaolack internal control procedures will not be necessary.

It is recommended that each field office has its own manual loan tracking system so that each field officer is in control of his loan accounts, and that a central manual system is kept at head office as a precaution against failure of an electronic system. Again, the incoming Director should be able to review the performance of the Kaolack loan tracking system before having to adopt it in Dakar.

In brief, the Dakar director should be given a free hand in selecting whatever procedures and systems are proven and appropriate for the Dakar operation.

EVALUATION

It is recommended that the Dakar credit operation uses the impact evaluation techniques developed by the Kaolack program for businesses that have borrowed and fully repaid loans. Data on job creation, increased asset value, increased profitability etc., is extremely useful both for demonstrating results of the program and for developing client profiles. In the Dakar context all evaluation-data should be double checked so that doubts about the accuracy of impact statistics will not arise. Evaluation forms prepared by field officers should be verified by a member of head office staff in the field to ensure the quality of data before it is processed.

STARTING UP

The census of informal business by Zarour, November 1988, enumerated more than 29,000 businesses in 26 neighborhoods of Dakar. The President of the Chambre de Metiers estimates that there are 85,000 artisans in the Cap Vert (Dakar).

region, of which 3,000 are Chambre de Metiers members. There is an enormous volume of small business activity in Dakar and there will therefore be an enormous amount of choice in selection of loan projects to finance. In a start up phase the Dakar credit operation should be highly selective of its clients, consciously building a reputation for high level of loan repayment, high level of loan impact and organizational efficiency.

10. OPERATIONAL LINKS WITH THE KAOLACK PROGRAM AND THE C&EDP

The Kaolack Small Business Program has gone through a number of growing pains, and is even now in a delicate stage of development. The Dakar credit operation must not be allowed to place an additional burden on the Kaolack Program. Rather, the Dakar credit operation should benefit from the freedom to use whatever technical input is adaptable to the Dakar situation, without depending on any administrative or logistical support.

An important operational link during the start-up of the Dakar program will be the training of Dakar field officers in Kaolack field offices. As loan appraisal techniques and client follow up for the Dakar operation will be similar to those used in Kaolack, the Dakar Field Officers can gain a head start by being apprenticed to functioning offices. The training will be organized in two sessions with groups of four people who will be on attachment for approximately three months consecutively.

The Kaolack Management Unit is due to phase out in the near term. The major objective of the Dakar credit operation is to establish a profitable and privately owned financial institution. For these two reasons the Dakar operation should be administratively autonomous from the outset, with its staff completely in charge of its own operation. Separating the programs will also allow the Dakar operation a fresh start and not disadvantage it by association with any difficulties that have been, and still are, part of the C&EDP's evolution.

Consolidation of financial and other information for project (C&EDP) purposes should take place at NTF Washington. Technical reporting to USAID can be direct from each credit operation director.

Technical exchange between Kaolack and Dakar should take place as necessary. At the same time, a formal meeting attended by PDO staff should take place on a quarterly basis for exchange of information and to explore joint initiatives (one such may be setting up a "centrale de risques" data base containing information on individuals with bad credit history).

11. OPERATIONAL LINKAGES WITH OTHER SIMILAR ORGANIZATIONS

As this study coincided with the onset of the holiday period it proved difficult to meet with representatives of all the organizations involved in informal sector promotion in Dakar. The list of organizations and information below is incomplete, but hopefully provides an overview of the situation.

At the present time there is no organization in Dakar with a specific mandate to provide credit to existing informal sector businesses. Organizations are providing a limited amount of funding or credit to start up small businesses or to create employment but with ulterior objectives (youth

employment, employment of university graduates etc.). Such services are not available to the mass of informal business owners. This situation may alter when the government of Senegal reorganizes SONAGA SONABANQUE, SOFISEDIT, and BNDS and creates a Banque Populaire. This new organization may provide loans to the informal sector but details are unavailable as yet.

Organizations contacted, and observations on the future potential for operational linkages are as follows:

AGETIP (Youth Employment Program)

The Youth Employment Program funded by a consortium of donors will be financing small and medium public works projects, through private contractors, with the objective of providing jobs for young people while carrying out improvements to the urban and rural infrastructure. As the program will provide contractors with advances and has a policy of prompt payment on completion of contract, there will be little scope for provision of credit to AGETIP contractors in the near term. In the medium term, however, AGETIP will be looking at ways of promoting private sector growth so that its impact will become lasting. The General Manager of the Program, Mr. Magatte Wade, has recently started up the public works program and is now considering options for the medium and long term. He may be interested to discuss the possibility of collaborating with the C&EDP to promote these initiatives.

PROGRAM DE REINSERTION DES EXPATRIES DE LA MAURITANIE

The European Development Fund has undertaken a preliminary study into ways of speeding the reabsorption of Senegalese refugees from Mauretania into the economy. One of the recommendations of this study is that existing small business promotion organizations (such as the Kaolack SSE program) provide technical follow up to start-up businesses for expatriés, funded by the EDF, in regions other than the Fleuve (where it is proposed that the EDF project will be based). It is not clear if the Dakar credit operation will be adapted to such a task, or indeed that the Mauretanian problem will still be an issue when the credit operation becomes fully functional around early 1991.

SAHEL REGIONAL FINANCIAL MANAGEMENT PROJECTS

During field visits to business owners in Dakar one tailor had recently taken a financial management course given by the SRFMP. The simple book keeping system that he had adopted as a result of the training appeared to suit his needs well, and he praised the course very highly. Such training would seem to suit the needs of young educated business persons wishing to better organize their enterprises.

The Dakar credit operation will adopt the "minimalist" (credit without training) approach. This does not mean to say that some of its clients, particularly those who are educated and get-ahead, would not benefit from such training as is being offered by the SRFMP. Such training would provide credit clients with the tools to facilitate their presentation of loan applications and the management of their loan projects. There is therefore a complementarity between the two activities that should be exploited. Frank Lusby, the Director of the Program will be open to exploring areas of compatibility with the incoming Director of the Dakar credit operation on his arrival.

OTHER ORGANIZATIONS

Other organizations such as the World Bank and SONAGA were contacted. Both are collaborating with the DIRE (who could not be contacted) which is financing start up businesses through the Fonds National de l'Emploi and the Fonds Speciale de Reinsertion. The Fonds National de l'Emploi is to assist immigrants, redundant functionaries, redundant workers from the modern sector and unemployed graduate students to start up businesses. The Fonds special de Reinsertion is to assist the unemployed in starting up micro-projects. Loans of up to CFA 5 million for up to 5 years with a repayment grace period of six months, interest at 6 per cent per year and without requirement of a solid guarantee, are available. Such programs are different in their approaches and objectives to the proposed Dakar credit operation and aim to serve quite different client groups. There seems to be little scope, therefore, for mutual initiatives.

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ANNEX F

ACTION: AID INFO: AMB DCM RIG ECON

VZCZCDK0070
PP RUEHDK
DE RUEHC #4522 1700041
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Date Rec'd	20 JUN 1989
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Action Taken	Noted
Date	6/10/89
Signature	WPA

LOC: 352 536
20 JUN 89 0750
CN: 30962
CHRG: AID
DIST: AID

AIDAC

E.O. 12356: N/A

TAGS:

SUBJECT: COMMUNITY AND ENTERPRISE DEVELOPMENT PROJECT
(685-0260): EXPANSION OF SSE CREDIT TO DAKAR REGION

REF: DAKAR 05255

1. PID-LIKE CABLE CONTAINED IN REFTTEL IS APPROVED BY AA/APR. MISSION IS AUTHORIZED 1) TO COMPLETE PP AMENDMENT TO SUBJECT PROJECT ALONG LINES PROPOSED IN REFTTEL, ADDING DOLS 2,700,000 TO LOP FUNDING TO NEW TOTAL OF DOLS 13,700,000; 2) TO AMEND PROJECT AUTHORIZATION TO ADD A SMALL SCALE ENTERPRISE CREDIT COMPONENT FOR THE DAKAR REGION AND 3) TO AMEND THE COOPERATIVE AGREEMENT WITH THE NEW TRANSCENTURY FOUNDATION TO INCORPORATE THIS NEW ELEMENT.

2. DURING AID/W REVIEW, SEVERAL ISSUES, COMMENTS AND QUESTIONS AROSE WHICH WE RECOMMEND THE MISSION ADDRESS IN THE PP AMENDMENT, IN ORDER TO STRENGTHEN THE RATIONALE FOR THE EXTENSION OF THE PROJECT INTO THE DAKAR REGION:

A. THE PID STATES THAT THE SSE KAOLACK CREDIT MODEL IS CONSIDERED APPLICABLE TO DAKAR. WHAT INDICATIONS ARE THERE THAT THE SUCCESS OF THE CREDIT PROGRAM IN RURAL AREAS CAN BE REPLICATED IN DAKAR? WHAT MODIFICATIONS WILL BE NECESSARY TO ADAPT THE CREDIT PROGRAM TO DAKAR?

B. WHAT IS THE BASIS FOR THE PROJECTION THAT PROFITABILITY WILL OCCUR IN THE NEW DAKAR SSE CREDIT PROGRAM BY END OF 1992, WHEN FOR THE EXISTING PROGRAM WHICH BEGAN IN 1984, PROFITABILITY IS NOT PROJECTED UNTIL JUNE 1991?

C. AMFNDMENT SHOULD ENSURE THAT PROVISIONS OF THE SSE DAKAR CREDIT PROGRAM ARE FULLY CONSISTENT WITH THOSE OF THE BANKING SECTOR PROJECT.

D. ASSUME PP AMENDMENT WILL INCLUDE A DEMAND ANALYSIS FOR SSE LOANS AT HIGHEST LEGAL INTEREST RATE (CURRENTLY 24 PERCENT), TO CLIENT GROUP OF WHOM ONLY 5 PERCENT HAVE HAD PRIOR EXPERIENCE WITH BANK LOANS.

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ANNEX F

E. AMENDMENT SHOULD INCLUDE A DESCRIPTION OF THE LEGAL BASIS AND FRAMEWORK FOR SSE CREDIT PROGRAM IN DAKAR AND HOW THEY FIT UNDER THE BCEAO RULES GOVERNING FINANCIAL INSTITUTIONS.

F. IN LIGHT OF MAGNITUDE OF CHANGES INVOLVED, THE TERM PP AMENDMENT SHOULD BE USED INSTEAD OF PP SUPPLEMENT. BAKER

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