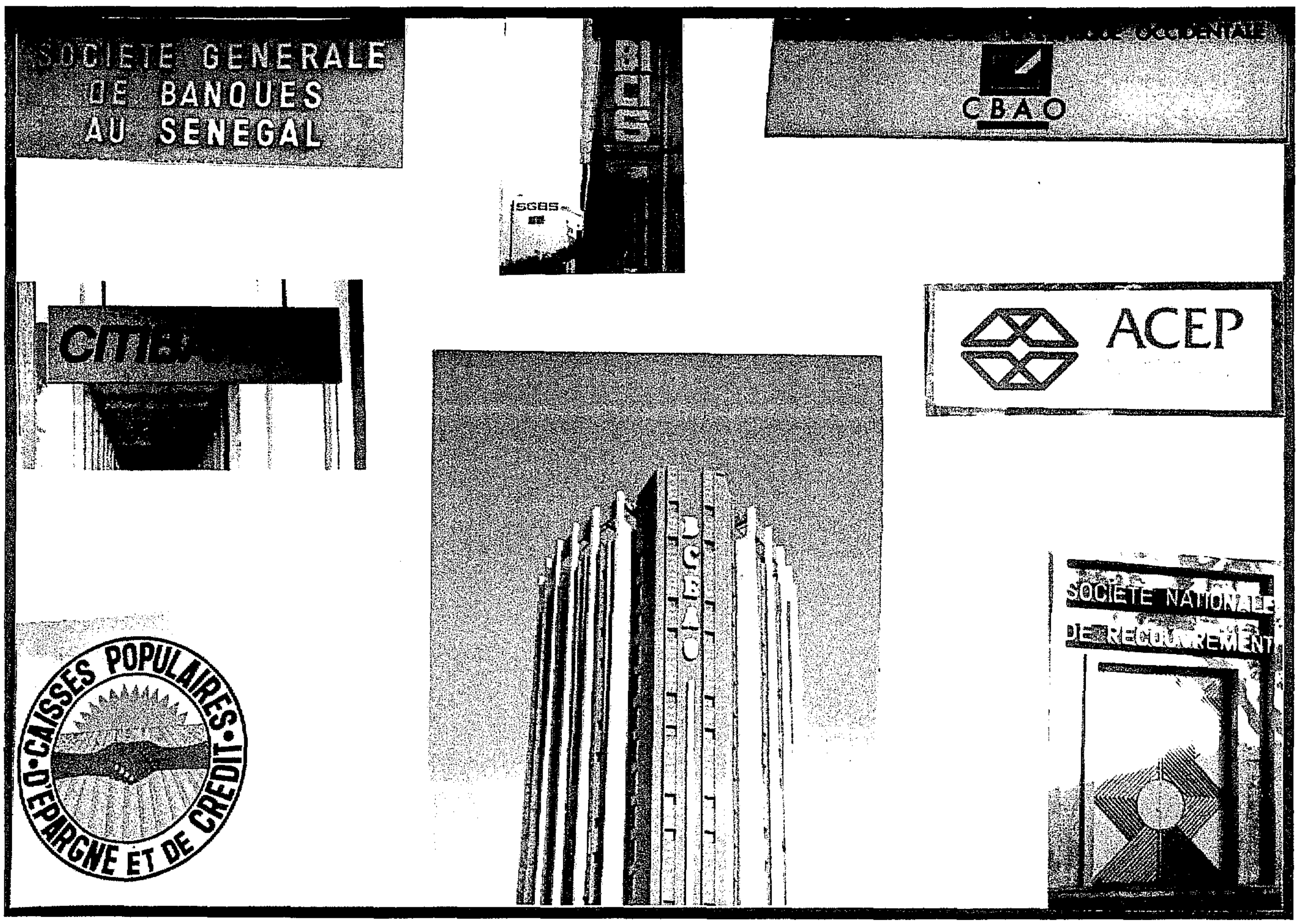
FINAL EVALUATION

THE SENEGAL BANKING SECTOR

REFORM PROGRAM (AEPRP-II)

<u>FINAL REPORT</u>



Prepared for USAID/Senegal by

Louis Berger International, Inc.

Stephen C. Silcox, Team Leader
Private Sector Specialist

Hung Linh
Banking Specialist

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PROGRAM IDENTIFICATION DATA SHEET

1. Country: Senegal

2. Program Title: Senegal Banking Sector Reform Program (AEPRP-II)

3. Program Numbers: 685-0292 (Program Grant)
   685-0299 (Studies & Technical Assistance)

4. Program Dates:

   a. First Program Agreement: January 19, 1990
   b. Final Obligation Date: August 9, 1991
   c. Most Recent Program Assistance Completion Date:
      685-0292 - January 19, 1995
      685-0299 - June 30, 1994

5. Program Funding:

   a. USAID Bilateral Funding:
      $32 million - Grant
      $3 million - Studies and Technical Assistance
   b. Other Major Donors:
      World Bank - $45 million
      France - $34 million
   c. Host Country Counterpart Funds:
      Government of Senegal - $0
      BCEAO - $500 million

      Total $614 million

6. Mode of Implementation
   a. 685-0292 - Program grants to the GOS
   b. 685-0299 - Studies and Technical Assistance
      1) Phillip Berlin -
         Study of Reserve Requirement System for Commercial Banks in Senegal
      2) Development Alternatives, Inc. -
         Technical assistance in implementing a monitoring and evaluation system for the Ministry of Economy, Finance and Plan
      3) PSC Consultants to the Societe Nationale de Recourvrement -
         Pierre-Marc Boy
         Jean Francois Cavat
      4) Louis Berger International, Inc. -
         Final Evaluation

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7. Program Designers: GOS and USAID

8. Responsible Mission Officials: (for life of program)

   a. Mission Director: Julius Coles
   b. Program Managers:
      Richard Greene
      Colette Cowey
      Ousmane Sane

9. Previous Evaluations: None

b

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The individuals in Senegal who provided the team with extensive information on the reform program were numerous. Officials of the GOS who were particularly helpful include Mame Cor Sene, Alia Diene Drame, and Galaye Seck. We also appreciate the time given us by various private businesspersons and consultants to SMEs or SME organizations, who are listed in Annex 1. Officials of the World Bank, the CFD, the French Mission de Coopération, and CIDA gave us their insights on the current banking reform situation in Senegal. A number of NGOs, notably CICM, ACEP and SDID helped us to better understand the progress being made in the credit union movement in Senegal.

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LIST OF ABBREVIATIONS/ACRONYMS

ACEP	Agence de Crédit pour l'Entreprise Privée and Alliance de Crédit et d'Epargne pour la Production
AEPRP	African Economic Policy Reform Program
APB	Association des Producteurs de Base
ATOBMS	Assistance Technique aux Opérations Bancaires Mutualistes au Sénégal
BACIC	Banque Africaine pour le Crédit Industriel et Commercial
BCCI	Bank of Credit & Commerce International
BCEAO	Banque Centrale des Etats de l'Afrique Occidentale
BIAOS	Banque Internationale pour l'Afrique Occidentale - Sénégal
BICIS	Banque Internationale du Commerce et de l'Industrie du Sénégal
BHS	Banque de l'Habitat du Sénégal
BNDS	Banque Nationale de Développement du Sénégal
BNP	Banque Nationale de Paris
BSK	Banque Sénégalo-Koweitienne
BST	Banque Sénégalo-Tunisienne
CBAO	Compagnie Bancaire de l'Afrique Occidentale
CFAF	Communauté Financière Africaine Franc
CFD/CCCE	Caisse Française de Développement (formerly Caisse Centrale de Coopération Economique)
CICM	Centre International du Crédit Mutuel
CIDA	Canadian International Development Agency
CLS	Crédit Lyonnais du Sénégal
CNCAS	Caisse Nationale du Crédit Agricole du Sénégal
CONACAP	Conseil National pour la Promotion des Caisses d'Epargne et de Prêt
CP	Condition Précédent
CPEC	Caisses Populaires d'Epargne et de Crédit
CPS	Crédit Populaire du Sénégal
CRS	Catholic Relief Services
DFA	Development Fund for Africa
FONGS	Fédération des ONG du Sénégal
FPE	Fonds de Promotion Economique
GDP	Gross Domestic Product
GOS	Government of Senegal
IBRD	International Bank for Reconstruction & Development (of the World Bank)
IMF	International Monetary Fund
MEFP	Ministère de l'Economie, des Finances et du Plan
MFIS	Massraf Faycal al Islami du Sénégal
MIS	Management Information System
NB	New Bank
NGO	Non-Government Organization
ONCAD	Office National de Coopération et d'Assistance au Développement

PAAD	Program Assistance Approval Document
PAIP	Program Assistance Initial Proposal
SDID	Société de Développement Internationale Desjardins
SGBS	Société Générale de Banques au Sénégal
SME	Small & Medium-Scale Enterprises
SNR	Société Nationale de Recouvrement
SOFISEDIT	Société Financière Sénégalaise pour le Développement de l'Industrie et du Tourisme
SONABANQUE	Société Nationale de Banques
SONACOS	Société Nationale des Oléagineux du Sénégal
SONAGA	Société Nationale de Garantie et d'Assistance au Commerce
SONEPI	Société Nationale d'Etudes et de Promotion Industrielle
UMOA/WAMU	Union Monétaire Ouest Africaine or West African Monetary Union
USB	Union Sénégalaise de Banques
WOCCU	World Council of Credit Unions

EXECUTIVE SUMMARY

Mission Initiating the Evaluation

This evaluation was initiated by USAID/Senegal as an end-of-project evaluation of the AEPRP-II Senegal Banking Sector Reform Program (Program No. 685-0292/0299).

Problem Statement

The Senegalese banking system in 1989 (and, with it, the Senegalese economy) was in danger of collapse. The banking sector as a whole was characterized by low liquidity and profitability, poor management, a portfolio of bad debts caused substantially by government interference in sound banking practices, poor banking supervision, and a lack of confidence by the general populace in all banks. It was clear that international assistance was needed to stabilize the banking sector and restore its health.

Program Strategy to Address the Problem

Based upon various studies and meetings with the international donor community, the Government of Senegal (GOS) adopted a comprehensive strategy in June 1989 to restructure the banking system. The international financial community, led by the World Bank, came to the aid of the Senegalese banking sector through the design of a coordinated program financed by the World Bank ($45 million), the French Caisse Centrale de Coopération Economique (now the Caisse Française de Développement - $34 million), and USAID ($35 million). The Central Bank matched the total provided by the three major donors with CFAF 150 billion to contribute to the restructuring of the sector. In addition, the Canadian International Development Agency agreed to provide technical assistance on the development of a credit union framework for Senegal.

The goal of the program was "to promote a dynamic market economy by restoring financial stability and expanding the role of the private sector." The purpose of the USAID program was "to provide critical financial and technical support to the GOS to assist with implementation of policy, regulatory, and institutional changes necessary to address the underlying problems of the banking sector."

Purpose of the Evaluation and Methodology Used

The purpose of this evaluation was "to assess the effectiveness of the AEPRP-II as an instrument for supporting the banking sector policy reforms undertaken in Senegal in conjunction with regional restructuring in the West African Monetary Union." This involved the determination of whether all conditions precedent were met prior to the disbursement of each tranche as well as assessing how the program was managed by USAID/Senegal. It also required an analysis of how successful the program was in meeting its purpose and objectives. Further, a number of questions relative to the impact of this program on its intended beneficiaries and other issues were addressed. These included an assessment of the effectiveness of the design of the program and its realism in dealing with the issues confronting USAID at the time the program was being planned.

The team conducting the study consisted of a banking specialist with experience in banking and financial sector reform and a private sector specialist with small and medium-scale enterprise experience focused on access to credit. They divided their work based upon the two principal aims of the program, i. e., to reform the Senegalese banking sector and to deepen and broaden access to credit, particularly in relation to small and medium-scale enterprises and for agricultural credit. The methodology of the evaluation consisted primarily of interviews with key informants in Washington, DC and Senegal and a review of documents dealing with the design and implementation of the program. Previous reviews and assessments both of the banking sector reform program and of related projects dealing with credit delivery were also analyzed.

Findings and Conclusions

The evaluation team concluded that the program was an overall success. All of the conditions precedent were met prior to the disbursement of each of the five tranches. The program achieved its purpose and most of its objectives relating to the restructuring of the banking sector; it also made considerable progress in regard to increasing access to credit for SMEs and agriculture, particularly in regard to the establishment of credit unions. Although there were some significant shortcomings and weaknesses, the program should be considered as having been a positive use of USAID funds.

The principal successes of the program were the following:

- The banking sector has been consolidated and the remaining private banks, for the most part, are solvent, more liquid, profitable and better managed.
- Banking supervision has improved through the creation of a regional banking control commission.
- Reserve requirements have replaced credit ceilings as a means of control of credit exposure by individual banks.
- Government ownership and interference in the banking sector has lessened significantly.
- The foundation for the establishment of a legal and institutional framework for credit unions has been laid. This was significant in that it has provided the basis for an appreciable increase in availability and access to credit for

SMEs and agriculture in the future.
- Donor coordination was excellent and USAID's role in the program has been particularly effective.

The principal shortcomings of the program were the following:

- The reform of the banking sector does not appear to have had a major impact on the improvement of the general economy. In fact, the restructuring of the banking sector could not have been expected to improve the economy by itself. However, it is clear that without the restructuring of the banking sector, there would have been no possibility at all for an improvement of the economy. More efforts are required to adjust the structure of the economy in other areas if a general improvement is to be accomplished.
- The program has not resulted in a significant increase in sectoral or term diversification of credit from commercial banks. Likewise, access to credit for SMEs and agriculture has not been significantly increased from the formal banking sector. However, some critical assumptions made in program design regarding lending to this sector were flawed.
- Mobilization of private sector deposits has not succeeded due to capital flight as a result of an uncertain domestic economic environment.
- Although a considerable amount of the bad debts of the liquidated banks have been recovered and the conditions precedent were met, a substantial amount remains uncollected and prospects for recovery of the remaining debts are not good.
- The banking sector monitoring system to be used by the GOS was not implemented. However, the evaluation team believes that the concept of the monitoring system had some major design problems.

Recommendations

The evaluation team recommends that USAID/Senegal consider the following activities to follow-up the banking reform program.

- USAID/Senegal should consider funding other projects to develop alternative financial mechanisms to provide credit to microenterprises and for agricultural inputs.
- USAID/Senegal should consider supporting further training of managers in the private banking sector in Senegal.
- USAID should consider assisting local business associations and similar groups through technical assistance and institutional support to help them explore the feasibility of developing alternative credit sources for SMEs, such as venture capital funds.

Lessons Learned for Other USAID Programs

- Program grants tied to conditions precedent can be very effective in changing government policies, if they are perceived to be in the government's interest.
- Effective donor coordination is critical to the success of major structural reforms of the economy. Donors should perceive their roles as being complementary to each other, with each donor focusing on a special aspect of the reform.
- Effective monitoring of the process of change by USAID and participation in day-to-day meetings and communication was extremely important in the restructuring of the banking sector. The use of five separate disbursements tied to specific conditions was particularly effective in this regard.
- Exploring alternative mechanisms for financial intermediation outside the formal banking system is essential in improving access to credit to SMEs and agriculture.
- Banking sector reforms and restructuring by itself cannot effectively change the structure of an economy. Attributing overall changes in the economy to banking sector improvements alone is very difficult, if not impossible.
- Improvement of access to credit through private commercial banks, especially to sectors perceived as being highly risky, cannot be accomplished through a program to improve financial viability of banks.

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I. INTRODUCTION

A. Program Context

At the time that the Senegal Banking Sector Reform Program was designed in 1989 (funded through the African Economic Policy Reform Program, a regional funding vehicle for USAID), the Senegalese banking system was in serious trouble. Several of the country's largest banks had bad and doubtful debts which greatly exceeded capital and reserves (with debts estimated at $721 million in September 1988, equivalent to about 45% of loans and 28% of total assets). Much of this debt was a result of outstanding crop credit and development loans from parastatal banks. In addition, a number of the private commercial banks were in trouble, having participated in loan programs guaranteed by the Government of Senegal (GOS) and having a substantial number of loans in default. As a result, many banks were having difficulty in honoring deposit withdrawal requests, in processing trade credits, and in clearing checks through the Central Bank (Banque Centrale des Etats de l'Afrique de l'Ouest - BCEAO) of the West African Monetary Union (WAMU). A general liquidity crisis had emerged which was also affecting sound banks and braking overall economic activity in Senegal. Government's cash flow was correspondingly affected and its ability to make government payroll was in serious trouble. The high cost of central bank rediscounting and the high interest costs of attracting marginal funds to the more risky banks also contributed to reducing the profitability of the banking system.

In sum, the Senegalese banking system in 1989 (and, with it, the Senegalese economy) was in danger of collapse. The banking sector as a whole was characterized by low liquidity and profitability, poor management, a portfolio of bad debts caused substantially by government interference in sound banking practices, poor banking supervision, and a lack of confidence by the general populace in all banks. It was clear that international assistance was needed to stabilize the banking sector and restore its health. (A more complete description of the banking sector crisis in Senegal and the WAMU countries at the time this program was designed is found in Annex 3.)

B. Description of the Program Evaluated

Based upon various studies and meetings with the international donor community, the GOS adopted a comprehensive strategy in June 1989 to restructure the banking system. The international financial community, led by the World Bank, came to the aid of the Senegalese banking sector through the design of a coordinated program financed by the World Bank ($45 million), the French Caisse Centrale de Coopération Economique (now the Caisse Française de Développement - $34 million), and USAID ($35 million). The BCEAO matched the total provided by the three major donors with CFAF 150 billion to contribute to the restructuring of the sector. In addition, the Canadian International Development Agency agreed to provide technical assistance on the development of a credit union framework for Senegal. The banking reform program consisted of six key measures (World Bank Report, September 24, 1993):

- A drastic restructuring of distressed banks which, with the injection of additional capital, would experience a positive net worth and meet minimum capital adequacy requirements;

- A closing of distressed banks for which no substantial injection of new capital was expected;

- A sharp reduction of abusive practices such as forced crop credits and government guarantees on parastatal borrowing, and a reduction of government ownership of banks to less than 25%;

- Substantial reforms in credit policies and bank legislation, supervision and practices (bank-by-bank credit ceilings, sectoral credit targets, prior authorization mechanism, and interest rate policies)

- Recovery of bad debt; and

- Studies of grass-roots mutual credit schemes.

Conversations with various parties revealed that it was recognized by the three major donors at the time that USAID would play a major role in developing the means to assure more effective management and supervision of the banking sector. This would take place through the meeting of conditions precedent for each of the five disbursements (tranches) over a period of three years. The stated purpose of the USAID program was,

> To provide critical financial and technical support to the GOS to assist with implementation of policy, regulatory, and institutional changes necessary to address the underlying problems of the banking sector.

The five objectives of the program were,

- Improved inspection and supervision of banks,
- Privatization, restructuring, and improved management of banks,
- Accelerated recovery of bad debt,
- Increased mobilization of domestic savings, and
- Improved allocation of credit.

These were to be accomplished through cash transfers to the GOS totaling $32 million and $3 million in technical assistance.

C. Purpose of the Evaluation

The purpose of this evaluation is "to assess the effectiveness of the AEPRP-II as an instrument for supporting the banking sector policy reforms undertaken in Senegal in conjunction with regional restructuring in the West African Monetary Union." This involves the determination of whether all conditions precedent were met prior to the disbursement of each tranche as well as assessing how the program was managed by USAID/Senegal. It also requires an analysis of how successful the program was in meeting its purpose and objectives.

Further, the statement of work for this evaluation lists a number of questions relative to the impact of this program on its intended beneficiaries and in regard to other issues. These include an assessment of the effectiveness of the design of the program and its realism in dealing with the issues confronting USAID at the time the program was being planned. All of these questions and issues will be addressed in this report.

This evaluation will provide USAID with conclusions and lessons learned pertaining to various aspects of the banking reform package. Finally, it will attempt to provide recommendations for future efforts by USAID in this domain, in regard to Senegal, specifically, as well as to programs elsewhere.

D. Methodology & Schedule

This evaluation was conducted in January and February 1994 after the fifth and last tranche of funds was transferred to the GOS in December 1993. Consequently, this could be considered as the final evaluation of the program. The team conducting the study consisted of a banking specialist with experience in banking and financial sector reform and a private sector specialist with small and medium-scale enterprise experience focused on access to credit. They divided their work based upon the two principal aims of the program, i. e., to reform the Senegalese banking sector and to deepen and broaden access to credit, particularly in relation to small and medium-scale enterprises and for agricultural credit.

The methodology of the evaluation consisted primarily of interviews with key informants and review of documents dealing with the design and implementation of the program. Detailed and extensive impact surveys were not within the scope of this evaluation. Consequently, previous reviews and assessments both of the banking sector reform program and of related projects dealing with credit delivery were analyzed to determine the success of the program in attaining its intended impact on beneficiaries and in the achievement of program indicators.

One week was spent in Washington, D.C., prior to the team's arrival in Senegal, meeting with various officials in USAID and the World

Bank and with consultants who had worked on the program. The purpose of these meetings was to review the history of the program with key individuals involved in its design and implementation as well as to obtain relevant documents which would permit the team to brief themselves on the program prior to their arrival in Senegal.

The second week involved travel to Senegal and initial briefings with USAID/Senegal officials and GOS officials involved in the banking sector reform program. Additional program documents and other relevant documents were also collected. The third and fourth weeks were spent interviewing various parties and institutions involved in the banking sector of Senegal, other donors, and selected organizations providing credit to SMEs and farmers. A draft outline of the evaluation report and preliminary conclusions were discussed with USAID officials at the start of the third week. The team began drafting its report during the fourth week. Further consultations with USAID officials were held during the fourth week to discuss progress, the team's schedule and further findings and conclusions. In addition, one field trip was made to Kaolack to interview representatives of CPEC/CICM about credit unions and a Fulbright scholar who is studying agricultural credit.

At the beginning of the fifth week, the evaluation team provided a draft report to USAID and an annotated outline in French for the relevant GOS officials. The team received extensive comments from the USAID officers most directly involved in the program. The team also met with the Director of Money and Credit Office of the Ministry of the Economy, Finance & Plan (MEFP) to review the annotated outline and with the Managing Director of the SNR to review the findings and conclusions reached regarding SNR operations. A meeting was also held with the Review Committee at USAID comprised of individuals from different departments to receive their comments on the draft report. This revised draft incorporates the comments received from the various parties.

The evaluation team submitted a revised draft to USAID at the start of the sixth week and debriefed with the Director of USAID/Senegal on the following day. The team then departed Senegal following receipt of comments on the revised draft from the Program Office. A local translator was retained in Dakar to prepare a French version of the revised draft with the approval of USAID/Senegal.

This final report was completed during the seventh week after the team returned to Washington.

II. FINDINGS

A. Achievement of Program Goal, Purpose and Objectives

This section of the report addresses the achievement of the program goal, purpose and objectives as reflected in the logical framework as revised in December 1992. The principal effect of the revision was to remove the establishment of the "New Bank" as a program output. The "New Bank" was conceived as a private bank which would have consolidated the performing loans of the liquidated banks and was envisioned as serving as a primary source of SME and agriculture credit. This "New Bank" was dropped as a Condition Precedent through an amendment to the Program Assistance Approval Document (PAAD) on December 11, 1992. A more detailed discussion of this change is found in Sections II.B.1 and II.D.2.c. below.

1. Program Goal

The Goal of the AEPRP-II was "to promote a dynamic market economy by restoring financial stability and expanding the role of the private sector."

The Banking Sector Reform Program was undertaken within the context of a comprehensive structural adjustment program put in place by the IMF, the World Bank, and other donors which included 3 main components:

- The IMF-initiated macro-economic Enhanced Structural Adjustment Facility
- The IBRD-sponsored Structural Adjustment Loan
- The multi-donor Banking Sector Restructuring Program

The goal of the program reflected this overall restructuring of the economy and sought to positively influence this process.

It would have been difficult, at best, to directly relate overall economic development to the improvement of the banking sector. The limitations of the data available made it impossible to ascertain, in any meaningful way, that the indicators of goal achievement were attained. The only data available on the economy were estimates from 1988 through 1992 and projections, based upon these estimates, for 1993.

Nevertheless, it can be safely stated that without the restructuring of the banking sector, economic development would have been severely restricted, if not impossible. In this sense, the restructuring of the banking sector was a *sine qua non* to the improvement of the economy of Senegal.

For general observation purposes and with the limitations of the data in mind, an analysis of the macro-economic situation is made in Section III.D. below.

2. Program Purpose

The program purpose was "to provide critical financial and technical support to the GOS to assist with implementation of policy, regulatory, and institutional changes necessary to address the underlying problems of the banking sector."

The program purpose was attained to a substantial degree. A review of the principal indicators points to meaningful accomplishments in the strengthening of the banking sector but notable shortfalls in the sectoral and term diversification of bank credit and in the increased ratio of deposits and sound credit to GDP.

The banking sector reform program has achieved profound success in improved viability of the banking sector. Most of the existing banks are now in a much improved financial condition, marked by higher liquidity, better capitalization, and higher profitability.

Between 1988 and 1992, while GDP continued to grow, the volume of sound credits declined due to the reclassification and write-off of numerous loans during the years 1988-90.

Two of the indicators anticipated an increase in both sectoral and term diversification of credit. The reform has not had a significant impact in this respect. However, the evaluation team questioned the validity of the assumptions relative to this issue. (A detailed discussion is found in Section II.D. below.)

It should be noted that the figures available to the evaluation team gave no breakdown of "sound" and "unsound" credits by sector or by term. Likewise, the data available did not include credit granted by the non-banking sector, e.g., mutual or cooperative credit associations and NGO credit programs, or the informal sector.

3. Objectives/Outputs

The program listed five main objectives/outputs. Progress toward the achievement of each objective/output is reviewed below.

a. Improved Inspection and Supervision of Banks

This objective has been attained to a significant degree. The two indicators were achieved.

Under the auspices of the WAMU (as opposed to the BCEAO under the old system), a Banking Control Commission was created in April 1990, with broad authority to audit all the banks on a regular basis, ensure compliance with newly defined prudential ratios, and impose necessary sanctions (warnings, injunctions, and recommendations for withdrawal of bank charters) against infractions.

The Commission is composed of two representatives for each of the seven country members of the WAMU, two for France, and the Governor of the BCEAO who acts as President of the Commission. The Commission has been very active and has audited all the banks in Senegal on a 12-month cycle basis, as compared to the 18-month cycle recommended by the reform plan. A comprehensive report on the condition of the banking sector in the entire WAMU system as of the fiscal year ending September 1992 has been published.

b. Privatization, Restructuring and Improved Management of Banks

This objective was attained in all aspects. All of the indicators were achieved.

Prior to the reform, the financial system in Senegal included 15 commercial and development banks, and 7 non-bank financial institutions. During the period from mid-1989 to as recently as January 1994, eight poor performing financial institutions were closed; five were government-owned institutions and three were private banks.

Before the reform, the Government of Senegal had participated in the direct or indirect ownership of 11 of the 15 banks, for a total of 31.5% control of the Senegalese banking system. Following the restructuring, government majority ownership ended, largely to the benefit of French banks.

The four largest of the surviving banks (BICIS, CBAO, SGBS, CLS) went through major internal reorganizations that included recapitalization, changes in management, balance sheet clean up, and (to varying degrees) closing down of branches and reduction of staff.

c. Accelerated Recovery of Bad Debt

This objective was attained and all of the indicators were reached.

The non-performing loans of the failed government-owned banks were consolidated and transferred to a newly created institution, whose sole function would be the collection and/or liquidation of the bad debts. The Société Nationale de Recouvrement (SNR) was established in June 1991 as a government-owned and funded corporation. The SNR is under the control of a seven member Board of Directors appointed by the GOS. Day to day operations are handled by a General Director, who has been assisted by two technical advisors provided by USAID.

Starting from disorganized and incomplete information, the SNR has been able to reconstruct loan files and compile a databank to follow up on its recovery efforts. Progress by the SNR is monitored by the Direction de la Monnaie et du Crédit of the MEFP and by USAID through quarterly progress reports prepared by the consultants. The amounts recovered as set forth in the program conditionality were met.

d. Increased Mobilization of Domestic Savings

This objective was not attained to any substantive degree.

The reform has not raised the overall amount of private deposits as much as expected due to increased private consumption, as well as to factors outside of the banking sector; but the elimination of double taxation did cause a healthy shift in deposit patterns in favor of long-term deposits. This shift is indicative to some degree of an increase of confidence in the banking sector. In the long run, the continuous growth of the economy, successful control of inflation, and a balanced budget would be decisive factors for further mobilization of domestic savings.

The BCEAO has also taken measures to establish itself as the lender of last resort, rather than as a primary source of funds, as in the past. This has resulted in a significant positive change in bank credit operations. In addition, the rediscount rate was raised to 14.5% in late January 1994 (allegedly to counteract any potential inflationary pressures caused by the devaluation of the CFAF), while the prevailing money market rate remained at 8.75% and the bank lending rate was 13.0%.

e. Improved Allocation of Credit

This objective was attained in the sense that nine of the ten indicators were achieved. However, these indicators were designed as measures to be taken by government to help open the credit market and do not actually measure increased allocation of credit. In fact there has been no significant increase in the allocation of credit from the formal banking system either on a term or sectoral basis.

The GOS has discontinued the practice of providing guarantees for loans to state-owned and private enterprises (except with the approval of the legislature), no longer imposes on commercial banks to participate in loans, has removed all sectoral credit ceilings, and abolished the prior authorization system for large loans. However, some degree of GOS intervention remains in the following respects:

- The management of the SNR is controlled through the Board of Directors whose members are appointed by the GOS.

- Although direct GOS ownership in the CNCAS is below the

25% level, the government still appears to exercise considerable influence on credit decisions.

- The Fonds de Promotion Economique (FPE), a government agency which administers a line of credit financed by the African Development Bank to finance SMEs, must approve all loans initially approved by participating banks.

B. Achievement of Conditions Precedent, Covenants and Program Inputs

1. Conditions Precedent

The AEPRP-II Program was successful in achieving all Conditions Precedent (CP) prior to the release of each of the five tranches.

There was one CP regarding the establishment of the "New Bank", however, on which there was a disagreement as to whether the CP was met. USAID/Senegal released the first tranche of funds under the program in accordance with the evidence it had received that the "New Bank" entitled "Crédit Populaire du Sénégal" (CPS) had been legally incorporated, CFAF two billion had been deposited as paid-in-capital in an account in a commercial bank, and the bank's manual of operating procedures, initial balance sheet and project income statement had been prepared, as per the condition precedent.

The documents cited were prepared by the MEFP with the technical assistance of a representative of the BCEAO in May 1989. The CPS was incorporated with the CFAF two billion on deposit on September 11, 1989. The first tranche of funds was released in February 1990. USAID/Senegal staff contend that, at the time the funds were disbursed, there was no reason to believe that the CPS would not be licensed by the BCEAO, especially since a representative of the BCEAO had participated in the drafting of the documents preparatory to the incorporation of the bank. According to USAID/Senegal staff, the decision was taken by the BCEAO to reject the licensing application of the CPS and this decision was communicated to the MEFP in the summer of 1990, well after the disbursement of the first tranche of funds.

However, others contend that the "New Bank" was never actually established since the BCEAO never granted the bank a license to operate. An audit by the Regional Inspector General in March 1992 asserted that the "New Bank" had not been established in that it never became operational. To reconcile the dispute, it was decided by USAID/Washington and USAID/Senegal to amend the PAAD to exclude the creation of the "New Bank" from the conditions precedent for the first tranche.

It is the opinion of the evaluation team that USAID/Senegal acted in good faith in releasing the first tranche in that there was sufficient evidence to believe that the "New Bank" had been established and would be licensed to operate in due time. The evaluation team further believes that, in the final analysis, it was fortuitous that the "New Bank" was never created. Please note the discussion on this issue in Section II.D.2. below.

2. Covenants

All covenants listed in the PAAD appear to have been accomplished except for the covenant requiring that any non-performing loans guaranteed by the GOS be included in the net position of the government in its overall credit ceiling with the BCEAO. This action would have severely affected the ability of the GOS to function effectively and could have been detrimental to the political stability of Senegal and the economy. In view of the untenable position in which this action would have placed the GOS, it is understandable that it was not complied with.

Another covenant which was met involved the declaration of the GOS to abstain from intervening in the management of banks. Although this has been achieved to a substantial extent throughout the sector as a whole, there are still some areas in which the GOS has not entirely relinquished its influence (as cited in Section II.A.3.c. above). Likewise, although there is no specific evidence to show that GOS has directly intervened in the bad debt collection operations of the SNR, there has been concern that efforts by the SNR management have not been effectively supported by the GOS.

3. Program Inputs

The program inputs consisted of $32 million in program grants to the GOS and $3 million in technical assistance.

The program grants were disbursed in five tranches upon the meeting of the conditions precedent for each tranche. The last tranche was approved and disbursed in December 1993.

Technical assistance was planned for accelerated recovery of bad debt, for improved bank management, and for program implementation, monitoring and evaluation. Two long-term technical advisors were to be placed with the SNR, two long-term advisors were to be placed with the "New Bank" and one long-term advisor was to be placed with the MEFP to help establish the banking monitoring system. In addition, short-term technical assistance was planned for assistance in establishing the "New Bank," for a study on replacement of administrative bank-by-bank credit ceilings, for assistance in designing a computerized banking sector monitoring system for the MEFP, and for this end-of-project evaluation.

All of the short-term assistance was provided. The long-term assistance for the "New Bank" was not provided when it became clear to USAID/Senegal that the bank would not be licensed by the BCEAO. The long-term advisor to assist the MEFP to establish a banking monitoring system was also not provided. It was not entirely clear to the evaluation team as to when and why the decision was made to dispense with this technical assistance. It would appear that some representatives of both the MEFP and USAID/Senegal wanted to implement the system. The responsible USAID/Senegal representatives, for their part, have tried to put pressure on various officials in the GOS and the BCEAO to assist in obtaining the data required to implement the system. The computer hardware was supplied and the software designed and put in place by the short-term consultants to allow for implementation.

There seems to have been some disagreement as to the effective desire of the various parties on the GOS side to actually implement the monitoring system. The fact that there have been a considerable number of personnel changes at the higher levels of government during the course of the program has caused delays in the implementation of the monitoring system. It also seems that the purpose of the monitoring system and the uses to which it would be put varies according to the interests of the parties involved. For example, MEFP officials stated that they were interested in obtaining information on individual banks in which they have shareholdings in order to determine if they are operating in a prudent manner; whereas, USAID officials appear to have been more interested in tracking increases in diversification and access to credit for SMEs and agriculture to ascertain compliance with DFA requirements for impact on low-income groups.

Since the evaluation team questions the validity of the assumptions underlying the establishment of the monitoring system with the MEFP, it would seem that USAID's decision to forego the placement of a long-term advisor with the MEFP was the right one, under the circumstances. Although the monitoring system might have helped USAID to better monitor banking sector reform during the life of the program, particularly as regards the deepening of credit, it is debatable that the GOS could have used that information effectively to make any significant changes in the banking system to remedy any perceived deficiencies. In fact, one can argue that such interventions would have be contrary to one of the key objectives of the program, to wit, to remove the GOS from intervening in the credit decisions of banks. This issue is discussed further in Section II.D.4. below.

C. Major Successes

1. Impact on the Banking Sector

a. Improvement in Bank Supervision

Prior to the reform, the issue of inspection of the banks had not been seriously addressed. Likewise, the respective authority of the BCEAO and the MEFP had not been clearly defined. The prevailing state of confusion had resulted in a very lax system of supervision. Now, with a new regional Banking Control Commission with clearly defined objectives, the supervision of the banks is being accomplished in a more effective manner.

The prudential ratios have been redefined and reinforced by the establishment of minimum reserves requirements.

Current Prudential Ratios & Requirements

RATIOS	REQUIREMENTS
1. Equity	1. Min. required CFAF 1 Billion
2. Equity to risk assets	2. Min. required 4%
3. Loans to employees	3. Min. allowed 20% equity
4. Participation to equity	4. Max. allowed 15%
5. Fixed assets & participation to equity	5. Max. allowed 100% equity
6. Non-operating fixed assets & particip. in real estate companies	6. Max. allowed 15% equity
7. Exposure diversification:	
a. One signature	7a. Max. allowed 100% equity
b. Total individual exposure Over 25% of equity	7b. Max. allowed 10x equity
8. Coverage of medium & long-term use of funds by long-term sources	8. Min. required 75%
9. Liquidity ratio	9. Min. required 60%

Overall, the Commission has received quite a favorable opinion from the banks and other interested observers. It is generally felt that the Commission is fulfilling a necessary task and has done a satisfactory job. It is true that the task of the Commission has been eased somewhat by the cooperation of the banks after the scare of 1988 (See Annex 3) and by the changes in bank management which have put in place a new generation of professional administrators.

Within this general feeling of satisfaction, there have been some concerns about the Commission paying too much attention to minor issues such as bank fees and interest spreads to make sure the banks did not exceed the 5% cap over the discount rate. The cap has since been raised to 2 times the discount rate, giving plenty of room for the banks and thus turning the criticisms into a moot point. The Commission has also been criticized by some bankers as being overly heavy, rigid, and petty at times. This type of criticism of auditing bodies is normal and probably healthy.

b. <u>Restructuring to Reduce Government Interference and Improve Bank Management</u>

The banking network was restructured based on the following principles:

-Seriously troubled banks, in particular State-owned banks, would be liquidated, with non-performing loans and frozen deposits transferred to an institution specially created to collect bad loans and return frozen deposits. The sound assets would be consolidated into a new commercial bank to be created.

- The surviving banks would be subject to recapitalization and major internal restructuring.

- Disengagement of the State in the ownership, the management and the loan decisionmaking process of the surviving banks. The State would reduce its ownership in any bank to 25% or less. Its share of ownership in the banking system as a whole would also be substantially reduced. The divestment would be done through injection of capital from the private sector, either by increased investment from existing private shareholders, or by contribution from new shareholders, local or foreign.

1) <u>Restructuring of the Banking Sector</u>

Prior to the reform, the financial system in Senegal included 15 commercial and development banks, and 7 non-bank financial institutions. During the period from mid-1989 to as recently as January 1994, seven poor performing banks and one financial institution (SONAGA) have closed:

- Banque Nationale de Développement du Sénégal (BNDS)
- Société Nationale de Garantie, d'Assistance et de Crédit (SONAGA)
- Société Nationale de Banques (SONABANQUE)
- Société Sénégalaise Pour le Développement de l'Industrie et du Tourisme (SOFISEDIT)
- ASSURBANK
- Bank of Credit and Commerce International (BCCI)
- Banque Sénégalo-Koweitienne (BSK)
- Massraf Faycal al Islami du Sénégal (MFIS)

The first five institutions were government-owned, while the last three were private banks.

Before the reform, the Government of Senegal had participated in the direct or indirect ownership of 11 of the financial institutions, for a total of 31.5% control of the Senegalese banking system. Following the restructuring, government majority ownership ended, largely to the benefit of French banks.

Controlling Interests in the 5 Largest Senegalese Banks (in %)

BANKS	**BEFORE REFORM**				**AFTER REFORM**			
	GOS	SE	FR	OT	GOS	SE	FR	OT
BICIS	42	8	35	15	25	8	51	16
CBAO (1)	25	18	57	0	10	18	65	7
SGBS	0	38	38	24	0	38	38	24
CLS (2)	75	0	19	6	5	0	95	0
CNCAS (3)	49	22	20	16	38	22	20	20

Sources:

- *Senegal Macroeconomic Update Report, Report #11041-SE, World Bank*
- *Monetary Management in Sub-Saharan Africa: Senegal, Eric Nelson.*

Notes:

GOS: Government, SE: Senegalese, FR: French, OT: Other Foreign

(1) At the start of the reform, BIAO-S was sold to Banque Nationale de Paris, but the latter pulled out and the GOS ended up with 82% control; eventually the bank was sold to the Mimran Group and took the CBAO name.
(2) Formerly USB
(3) GOS ownership after the reform includes 23% direct control (down from 28% prior to the reform) and 15% indirect control held through the state-owned SNR, the holder of assets of the failed BNDS which had 15% control of CNCAS.

The Union Sénégalaise de Banques (USB) was sold to Crédit Lyonnais in July 1989. The French bank contributed CFAF 1.9 billion in new capital (95%) while the GOS brought in 100 million (5%). The bank became **Crédit Lyonnais du Sénégal (CLS)**, a subsidiary of the French bank, and therefore went through a thorough overhaul that included changes in management positions, in policies and procedures, substantial lay-offs and closure of branches. All but two offices (headquarters in Dakar, and one office in the industrial zone) were closed. An estimated 340 employees were laid off. The GOS share of capital was reduced from 62% in the former USB to just 5% in the new bank.

The Banque Internationale pour l'Afrique Occidentale-Sénégal (BIAO-S), the oldest Senegalese bank where the GOS briefly had 82% ownership following the liquidation of the French parent BIAO and the subsequent withdrawal of Banque Nationale de Paris (BNP), was revived in late 1991. The new **Compagnie Bancaire de l'Afrique**

Occidentale (CBAO) is now 65% controlled by a group of private French investors (the Mimran Group), 25% by individual local investors, and 10% by the GOS. Eight of the bank's thirteen branches were closed, along with about 15,000 overdrawn accounts. Some 270 employees were displaced. The bank has a new management team which, according to the new Directeur Adjoint, intends to adopt a very "dynamic" marketing policy aiming at the small and medium enterprises market. Historically, BIAO-S was more of a corporate bank, catering to large corporations.

The **Banque Internationale pour le Commerce et l'Industrie du Sénégal (BICIS)**, which had been a state-controlled joint venture between the GOS (42%) and the French BNP (35%), was privatized. BNP increased its ownership to 51%, while the State reduced its share to 25%. The remaining 24% was divided among private local investors and some European banks (Banque Bruxelles Lambert, Dresdener Bank and Société Financière pour les Pays d'Outre-Mer).

The ownership structure of the largest bank, **Société Générale de Banques au Sénégal (SGBS)**, was not affected by the reform and remained under the control of the French Société Générale (37.9%), private Senegalese investors (38.2%), and 4 European banks (the Italian Banca Nationale Del Lavoro, the German Bayerische Vereinsbank, the Swiss Crédit Suisse, and the Belgian Société Générale de Banques).

Three small institutions, the privately-owned **Banque Sénégalo-Tunisienne (BST)** and **Banque de l'Habitat du Sénégal (BHS)** and the American-owned **Citibank** (wholly-owned by New York-based Citibank) were not affected by the restructuring. Surprisingly, the large and not so strong **Caisse Nationale de Crédit Agricole du Sénégal (CNCAS)** was barely touched, albeit direct government ownership was reduced slightly from 28% to 23%.

More significant than the ownership disengagement itself is the fact that the government discontinued its practice of providing state guaranties for loans to weak state-owned enterprises, as well as ceasing to exercise politically-motivated pressures on the loan approval process. Conversations with the management of the commercial banks confirm a clear withdrawal of the government from intervening in the banking business.

2) Improvement in Bank Management

All of the surviving banks went through major internal reorganizations that resulted in significant changes in the management teams. The new individuals in charge seem to be more qualified professionals who appear more interested in the profitability and viability of their banks than earning the favor of politicians. From a credit standpoint, bank managers asserted that loans are now being approved in a more prudent and objective way, based on the viability of the projects to be financed. The overall result of this new professionalism has been a meaningful improvement in the banks' financial condition. The condition of the four largest banks are reviewed below.

a) **Banque Internationale pour le Commerce et l'Industrie du Sénégal**

As of the fiscal year ending September 1992, BICIS has become the largest commercial bank in Senegal with total assets of over CFAF 108.6 billion.

The bank has seen a steady upward trend in all its financial ratios from 1988 to 1991. The liquid assets ratio (which measures the percentage of liquid assets net of short-term liabilities to total assets) went up from 3.6% in 1988 to 14.1% in 1991. The capital adequacy ratio (% capital to total assets) increased from 5.06% to 5.67%, indicating a somewhat larger cushion for the shareholders. This larger cushion was primarily due to a CFAF 1 billion capital infusion made in 1990 (capital grew from CFAF 2.5 billion to CFAF 3.5 billion). The loan to deposit ratio steadily declined from 103.2% to 81.7%. As deposits did not increase substantially, one can assume that the decline of the loan to deposit ratio reflects a more conservative lending policy. In fact, while total deposits increased by 49.5% during the 3-year period, total credits increased only by 40.1%. Profitability was also up, as evidenced by a higher return on assets (from 0.1% to 0.75%) and a higher return on equity (from 1.9% to 13.3%).

1992 was, however, a setback year for BICIS. The net profit was recorded at CFAF 494 million, down from the previous year's CFAF 760 million. The decline in profits was the result of a tripling of allocations for loan losses (resulting from Banking Control Commission recommendations) which surged from CFAF 395 million in 1991 to over CFAF 1 billion in 1992. The decline in profits pulled down all the financial ratios for 1992; but overall, BICIS has shown a good upward trend.

b) **Société Générale de Banques au Sénégal**

SGBS is the second largest bank with total assets of CFAF 108.1 billion as of fiscal year ending September 1992.

Compared to BICIS, SGBS is a less liquid bank. The liquid assets ratio has shown some improvement since 1988; but as of 1992, it was still a negative ratio, indicating an inability for short-term assets to cover short-term liabilities. However, SGBS has a stronger capital base as the capital adequacy ratio was not only higher, but also increasing faster, going from 5.0% in 1988 to 7.6% in 1991. The loan to deposit ratio shows the same declining trend as with BICIS, reflecting a slower growth of loans. SGBS also reported higher returns both on assets and equity with a sharply upward trend in 1990 and 1991. In 1992, SGBS suffered the same setback that hurt BICIS, i.e., the write-off of a few large non-performing loans. The net profit dropped from CFAF 1.3 billion in 1991 to just CFAF 308 million, which resulted in a general decline in all ratios for 1992. Despite the 1992 setback, the trend observed since 1988 indicates a general improvement in the bank's liquidity, solvency and profitability, although liquidity is still rather low.

It should be noted that SGBS and BICIS were the two banks hardest hit by the ONCAD disaster of the early 80s (See Annex 3) as the banks had been forced to absorb about CFAF 11 billion and CFAF 12.5 billion, respectively, in bad debts. These failed agricultural sector loans are still on the banks' books and will remain there for some time, weighing heavily on the banks' balance sheets and profit and loss statements.

c) **Compagnie Bancaire de l'Afrique Occidentale**

CBAO is the successor to the BIAO-S. In 1989, the BIAO parent company was reorganized. The French government pressured the State-owned Banque Nationale de Paris (BNP) to take over 51% control of the bank. Following failed attempts to sell the bank, BNP decided to consolidate BIAO-S into its own BICIS network. The plan was opposed by the BCEAO. BNP conducted an audit of the bank loan portfolio and decided to pull out at great cost, purchasing 65% of the remaining bad debts not yet allocated. For a short period, the GOS ended up with 82% control of the bank. Eventually, the GOS divested itself and sold the larger part of its holdings to the French Mimran Group, which now controls 65% of the bank.

After the restructuring, the newly emerged bank showed some improvement in its financial condition. As of the fiscal year ending September 1992, the liquid assets ratio was still negative (-3%), although to a much lesser extent than in 1988 (-28%). Its net cash position with the BCEAO, other financial institutions, and the GOS improved from a negative CFAF 20 billion in 1988 to a negative CFAF 2 billion in 1992. In the years 1988 and 1989, the bank lost CFAF 1.4 billion and CFAF 1.1 billion, respectively. In the 3-year period 1989-90-91, the bank's credit volume dropped by CFAF 25 billion, from CFAF 54 billion to less than CFAF 29 billion, primarily following write-off's of bad debts that had been accumulating on the balance sheet. The write-off's were largely offset by contributions from the GOS and BNP. The bank broke even in 1990 with the reorganization, and started reporting some small profits (net after provisions) in the years 1991-1992 - CFAF 285 million and CFAF 471 million, respectively. The profits, coupled with a capital injection of CFAF 1 billion, turned the bank's equity from a negative CFAF 24 million in 1989 to a positive CFAF 5.3 billion in 1992.

d) **Crédit Lyonnais du Sénégal**

CLS was started fresh from the clean assets of the failed USB and a 1.9 billion capital injection from the French parent bank in July 1989. Since then, it has grown very rapidly, from CFAF 23.3 billion in total assets at fiscal year ending September 1989 to CFAF 63.7 billion in 1992, largely through a 183% jump in deposits in 3 years (while credits went up only 87%). The bank was clearly capitalizing on its namesake. It was also very well managed, with very high liquidity ratios, very conservative loan to deposit ratios, good capitalization, and increasingly high returns on both assets and equity. The quick asset to deposit ratio (reflecting the ability of the bank to mobilize liquid assets to cover its deposits) went up from 55.2% in 1988 to 90.4% in 1992. The loan to deposit ratio averaged 55% in the last 3 years, as compared to an average of 104.5% for the 3 other major banks. In its first full year of operation in 1990, the bank earned CFAF 725 million in profits, which went up further to CFAF 858 million in 1991, and CFAF 1,092 million in 1992.

Comparative Ratios for 4 Largest Banks: 1988-1992 (in %)

BANK	BICIS		SGBS		CBAO		CLS(*)	
YEAR	1988	1992	1988	1992	1988	1992	1988	1992
A	3.6	3.8	-12.4	-8.6	-28.1	-3.0	4.9	26.9
B	53.8	44.6	16.4	17.1	18.2	62.3	55.2	90.4
C	10.8	11.1	9.5	8.9	N/M	6.7	6.4	8.0
D	103.0	97.0	125.0	112.0	153.0	101.0	97.0	64.0
E	5.1	5.5	6.1	7.1	0.02	7.9	8.9	7.4
F	0.1	0.4	0.8	0.3	-1.9	0.7	0.4	1.7
G	1.9	8.3	13.2	4.0	N/M	8.9	4.6	23.1

Sources:

- *Annual Reports FY 1990-91-92 for BICIS, CBAO, SGBS, and CLS;*
- *Bilan des Banques et des Etablissements Financiers de l'UMOA 1988-89-90, BCEAO.*
- *Statistiques Economiques et Monétaires, BCEAO.*

Notes:

A: Liquid Assets Ratio
B: Quick Assets to Deposits
C: Deposits to Capital
D: Loans to Deposits
E: Capital to Total Assets
F: Return on Assets
G: Return on Equity

N/M: not meaningful (i.e. losses and negative equity)

(*) 1988 figures are for the former USB

c. Banking Sector Performance

Following the restructuring of the sector, the commercial banking network in Senegal has resulted in the domination of the above 4 largest banks (BICIS, SGBS, CBAO and CLS), whose total combined assets accounted for 82.1% of total assets of the 8 surviving banks in 1990. The overall health of the banking sector is thus largely determined by the performance of the 4 major banks. The following table summarizes the average ratios for these 4 banks for the years 1988 and 1992; varying degrees of improvement are shown for all ratios, except for the last ratio, Sound Credit to GDP. Between 1988 and 1992, while GDP continued to grow, the volume of sound credits declined due to the reclassification and write-off of numerous loans during the years 1988-90.

Average Ratios for the 4 Largest Banks (in %)

PERFORMANCE RATIOS	1988	1992
Liquid Assets Ratio	- 8.0	4.8
Quick Assets to Deposits	35.9	53.6
Deposits to Capital	6.7	8.7
Loans to Deposits	119.0	93.0
Capital to Total Assets	5.0	7.1
Return on Assets	- 1.5	0.8
Return on Equity (*)	6.5	11.1
Deposits to GDP	16.2	16.4
Sound Credits to GDP	34.0	21.7

(*) Excluding CBAO in 1988 when the bank recorded a huge loss coupled with no equity

2. <u>Donor Coordination and USAID's Role in the Overall Banking Reform Program</u>

The coordination among the principal donors in the banking sector reform was considered exemplary by all parties consulted. The role played by USAID in the reform program was viewed as particularly effective. Interviews with representatives of other donors revealed a common perception of the complementarity of the roles of each donor. USAID was considered to have been the most intimately involved in the actual restructuring of the banking sector. Numerous individuals expressed their appreciation of USAID's active role in the process of the restructuring. More than the World Bank or the French CCCE (now CFD), USAID was seen as being an active player in the evolving situation of the banking sector. The World Bank representatives, in particular, felt that USAID's participation in the reform program helped to lend a tone of seriousness to the combined effort of the donors and helped in getting the attention of the GOS to ensure that the reforms were implemented.

The release of funds to the GOS in five separate tranches based upon the meeting of conditions precedent was considered by many of those interviewed to be a particularly effective vehicle for accomplishing the various aspects of reform. The French contribution was disbursed in one tranche at the beginning of the reform and the World Bank's contribution was disbursed in two tranches. Some of the individuals interviewed expressed an opinion that the linking of the disbursements to conditions precedent was somewhat onerous, but they appreciated USAID's constant monitoring and participation in the process of the reform. In the end, it appeared that USAID's role was considered by some as being overly ponderous, but most persons consulted respected the attention to detail which the USAID program brought to the table.

In addition, the cooperation between USAID and CIDA in the establishment of the credit union movement in Senegal was another good example of donor coordination in the banking reform program. More details on this item are found in the next section of this report.

3. <u>Laying the Groundwork for the Establishment of a Credit Union System in Senegal</u>

A key success of the banking reform program was the establishment of a legal and administrative basis for a credit union system in Senegal.

Credit union, credit mutuel, caisse populaire, banque populaire, and savings and credit cooperative are considered interchangeable terms for practical purposes. All of these terms are used in Africa and elsewhere to pertain to "associations of persons linked together by a common bond who save their money together and from their savings make loans to each other and obtain other financial services", (as defined by the World Council of Credit Unions - WOCCU). They are formal institutions, as opposed to rotating savings and credit associations (known as tontines in Senegal) and other informal groups. They require recognition under the law to operate effectively. However, their structure is considerably different from banks and, as such, require an overall legal framework different from a banking system which is much more flexible than typical banking legal requirements. (For a detailed description of credit unions and their differences from banks, please refer to the documents mentioned in the bibliography produced by the ATOBMS Project and WOCCU.)

USAID/Senegal has been directly involved in assisting the GOS to develop a legal framework for credit unions in Senegal. The Agence de Crédit pour l'Entreprise Privée (ACEP) component of the Community and Enterprise Development Project financed by USAID was specifically designed to provide credit to micro, small and medium-scale enterprises. It has been considered as a very successful project by USAID/Washington and amongst African practitioners and had been looking for a way to institutionalize its operations for some time. It had long considered credit union status as a good way to form a long-term Senegalese institution. USAID/Senegal was supportive of ACEP's efforts and provided both technical support and political support in meetings with the GOS to help achieve this objective.

In addition, as was mentioned in section I.B. above, the Canadian International Development Agency (CIDA) had agreed to assist the banking sector reform program through technical assistance to help to develop a credit union system in Senegal. This resulted in the Projet d'Assistance Technique aux Opérations Bancaires Mutualistes au Sénégal (ATOBMS). This project has provided technical consultants from the Société de Développement International Desjardins (SDID), a subsidiary of a well-known Canadian credit union federation.

The first phase of this project was specifically related to Senegal. SDID provided a number of studies which analyzed the various formal and informal activities related to savings and credit in Senegal. This included an assessment of the myriad of programs and projects dealing with savings and credit operating in Senegal sponsored by various Non-Governmental Organizations (NGOs) and donors. They then attempted, through a series of meetings and seminars, to come up with a framework to accommodate many of these existing activities while providing a legal and administrative structure for formal credit unions - not an easy task, to be sure. The resulting structure has been adopted, in principle, by the GOS. Two principal actions were taken by the GOS to implement the recommendations of the ATOBMS consultants. They were both the subject of an "Arrete transitoire" or provisional order signed in February 1993. The order provides, inter alia, that,

- Credit unions may be registered with the MEFP and conduct business while a law is being formulated by the BCEAO to apply to all CFAF-Zone countries.
- A Cellule d'Assistance Technique aux Caisses Populaires d'Epargne et de Crédit (AT/CPEC) was established within the MEFP to serve as the point of contact for the credit unions with the MEFP and to provide assistance to the credit union movement.

A sample provisional order which was drafted by WOCCU and adopted by the Government of Niger was provided by USAID to the GOS to utilize in drafting the Senegalese order.

The second phase of the SDID work is currently underway. It involves the provision of technical assistance to the BCEAO in the drafting of a uniform law for the registration and administration of credit unions which would apply to all CFAF Zone countries. It is expected to be submitted to each country for ratification shortly. The Senegalese provisional order provides for a three year transition period during which the existing, registered credit unions can adapt their operations to meet the requirements of the BCEAO-drafted law, after it is adopted by the GOS.

ACEP was registered by the MEFP as a credit union in May 1993. Since its project assistance from USAID came to end in December 1993, it will be receiving technical assistance from CIDA in going about the changes necessary to convert its operations to a credit union. It has changed its name to "Alliance de Crédit et d'Epargne pour la Production", while retaining the same acronym "ACEP", to conform to its new legal status. The GOS has agreed to provide additional capital of $1.7 million from its own funds to support the expansion of ACEP to the Casamance region.

In addition to ACEP, as of January 1994, three other credit union associations have been registered by the MEFP, two others have been approved for registration, and seven others have applied for registration and are currently under study. (It is important to note that each credit union association may contain more than one branch or "caisse.") According to a survey conducted in July 1992 and provided by AT/CPEC, there are some fourteen organizations operating in Senegal which are either registered or plan to register under the provisional order. Together, they have a total of 143 caisses and a combined membership of over 65,000 persons in both urban and rural areas. The largest of these is CPEC/CICM which is sponsored by the Centre International du Crédit Mutuel in France and which has a total of fifty caisses and over 12,000 members in the Kaolack and Tambacounda regions. It opened a regional office in Thiès in 1993 and will open another regional office in Ziguinchor in 1994. Caisses EGABI/CRS have the second largest number of caisses with 26 and have 1200 members. CONACAP has the third largest number of caisses with 22 and has 3500 members. It has been supported by USAID in the past and has received technical assistance from WOCCU.

In September 1992, the GOS presented USAID with a Plan of Action to expand the availability of credit to SMEs and agriculture. This was in compliance with a CP for the release of the third tranche. Most of the activities under that plan of action have been implemented in accordance with a CP dealing with this matter vis-a-vis the release of the fourth tranche. It is safe to say that the credit union movement in Senegal is well underway and that this is one of the major accomplishments of both USAID and CIDA in the banking reform program in terms of improved allocation of credit. There is still much to be done, but a big step has been taken in providing for the viability and growth of credit unions in Senegal.

D. PRINCIPAL SHORTCOMINGS

1. Sectoral and Term Diversification of Credit

A principal indicator of the success of the reform was to be increased diversification of credit to more sectors of the economy, especially to small and medium-scale enterprises and agriculture, and to raise the volume of medium and long-term credit from the formal banking sector. Both increases were judged to be important for the development of a strong private sector. The reform has not had a significant impact in this respect. The evaluation team contends that this expectation was unrealistic and contrary to the other objectives of the reform program. A discussion as to the validity of the assumptions relative to this issue is found in Section II.D.2. below.

However, to reach the stated objectives certain measures were taken at the BCEAO and the MEFP levels to reduce the constraints to an expansion of credit.

Prior to the reform, the BCEAO exercised direct control on the commercial banks not only through mandatory prudential ratios, but also through ceilings on loans discounted with the BCEAO and through the application of different discount interest rates. With the reform, ceilings for individual commercial banks have been eliminated, although country ceilings are still in force for government borrowing. The elimination of credit ceilings for individual banks was expected to boost credit, particularly medium-term credit. The system of a preferential discount rate for crop credit has also been abolished in favor of a sole rate applicable to all types of loans discounted. This measure will probably not help to promote credit from the commercial banks to the agricultural sector. The level of credit is now no longer controlled through ceilings, but through a real money market that allows banks to sell and buy funds through the BCEAO or directly between banks themselves. The prudential ratios remain in place but are modified and are reinforced with a system of minimum reserve requirements. Assuring compliance with these ratios is under the Banking Control Commission's responsibility.

As far as the government is concerned, the system of prior authorization for large loans has also been terminated. This particular measure is not expected to have any major impact since the evaluation team was told that it was never effectively enforced.

Credit Control Systems

OLD SYSTEM	NEW SYSTEM
- Government credit ceiling defined at 20% of tax revenues	- In place
- Bank credit ceilings	- Eliminated
- Sector ceilings	- Eliminated
- Preferential discount rate	- One discount rate
- Prior authorization	- Eliminated
- Prudential ratios	- Remain, but redefined and reserve requirements added
- Interest rate for loans capped at 5% over discount rate	- Interest rate for loans capped at 2 times discount rate
- Pseudo money market through BCEAO only	- Real money market through BCEAO, and direct between banks

The above changes did not have the expected impact on the sectoral and term diversification of credit, as shown in the table below.

Changes in the Sectoral Diversification of Credit
(millions CFAF)

SECTORS	OCT 1987		MAR 1993		CHANG
AGRICULTURE	13,084	2.9%	25,004	4.9%	91.1%
MANUFACTURING	66,333	14.7%	70,297	13.9%	6.0%
COMMERCE	228,521	50.6%	228,461	45.3%	-0-
TRANSP & COMMUNIC	9,584	4.3%	30,366	6.0%	55.1%
FINANCIAL SERVICES	37,839	8.4%	41,637	8.3%	10.0%
SOCIAL SERVICES	47,334	10.5%	65,025	12.9%	37.4%
TOTAL	451,286	100.0%	504,326	100.0%	11.8%

Source: Statistiques Economiques et Monétaires, BCEAO.

It should be noted that the above figures include all credits from the banking sector, i.e., sound as well as past-due and doubtful credits. The data available gave no breakdown of "sound" and "unsound" credits by sector or by term. Likewise, the data available did not include credit granted by the non-banking sector, e.g., mutual or cooperative credit associations and NGO credit programs, or the informal sector.

Between 1987 and 1993, the agricultural sector showed the largest increase in the volume of credit granted by commercial banks. Yet, it has not even reached the level of 5% of total credit, although this sector accounts for a quarter of GDP. The relatively high rate of increase reflected a low initial base.

The manufacturing and commerce sectors, where most small and medium-scale enterprises are found, reported no meaningful increase, resulting in an actual declining share of total credit. Within the manufacturing sector, credit to food product enterprises actually declined by 14%, while credit to the textile industry showed only a 0.6% increase in 6 years. It is important to note that food products and textiles are the principal manufacturing activities of the country. In the commerce sector, credit to wholesale commerce dropped by 3% while credit to retail commerce (where many SMEs are found) reported a meaningful 22% increase. Nevertheless, on an aggregate basis, credit to this sector experienced a small net decline.

Changes in Credit Distribution by Term (in %)

	OCT 1987				MAR 1993			
	SHO	**MED**	**LON**	**TOT**	**SHO**	**MED**	**LON**	**TOT**
PRIVATE	45.4	14.6	0.6	60.7	49.3	16.1	1.4	66.8
PUBLIC	16.1	3.3	20.0	39.3	17.8	1.9	13.5	33.2
TOTAL	61.5	17.9	20.6	100	67.1	18.0	14.9	100

Source: Statistiques Economiques et Monétaires, BCEAO.

In both the private and the public sectors, there was an increase in the volume of short-term credit between 1987 and 1993, at the expense of long-term credit. Medium-term credit showed a meaningless increase. Apparently, the liquidation of the BNDS and other specialized banks (SONAGA, SOFISEDIT, SONABANQUE), and the discontinuation of state guaranties seem to have had an adverse impact on long-term development loans. Commercial banks do not appear willing to take the risk associated with this type of loans, preferring short-term (3 to 6 months) transactions.

2. Broadening and Deepening of Access to Credit for Small and Medium-scale Enterprises and Agriculture

a. Misperceptions Regarding the Potential for a Banking Restructuring Program to Loosen Credit, Particularly to Sectors Perceived as High Risk

There is nothing in the program goal, purpose or objectives of AEPRP-II that specifically mentions increased credit availability specifically to SMEs and for agriculture as a part of the banking reform program. Two conditions precedent mention this objective, however, and the narrative text of the PAAD mentions it in Section E on Impact and Beneficiaries and in Section H on the Monitoring and Evaluation Plan. It is interesting to note that Annex E of the PAAD, the PAIP Approval Cable, observes that the use of DFA funds requires a linkage between the banking reform program and benefits to persons at the lower end of the income scale. One can only speculate on how this requirement might have motivated program designers to link banking sector reform to deepening of credit. The PAAD and the logical framework called for two actions that would have made that linkage - the support for the development of financial innovations such as a legal framework for credit unions and the establishment of a "New Bank" which would consolidate the performing loans of the failed banks being liquidated and specifically target its credit toward SMEs and agriculture, among others.

It appears that the inclusion of the activities related to the credit unions and the "New Bank" was an implicit recognition that commercial banks do not usually lend to these sectors. It is fair to say that this tendency is true throughout the world, and particularly in Africa. The only country in Africa known by the evaluation team where any experimental efforts to lend to SMEs are being made on their own initiative by commercial banks <u>without outside incentives or pressure</u> is in South Africa, where the traditional banks are looking for ways to capture what they view as an emerging market among Africans who have been disenfranchised politically and economically in the past. This reflects how competition among banks for what they perceive as a sector with growth potential can lead them to take risks if they believe that the potential gains are worth the risks involved.

A former banker and U. S. central bank employee who had been hired by USAID made a visit to Senegal in March 1992 to become acquainted with the AEPRP-II program. Her memorandum to L. Saiers, DAA/POL, on March 27, 1993 states (See Laurie Landy),

> Briefly, my point was that in a short period of time Senegal has accomplished a great deal with respect to financial sector restructuring and bank supervision. However, it is premature to expect a newly reformed banking system to immediately begin to innovate. In fact, if anything, we can expect a period of

> consolidation in which banks have a conservative bias towards new business. This is probably a positive development given the recent history.

In a related memorandum to USAID/Senegal on March 17, 1993, she talks of other efforts to broaden lending efforts through donor and NGO initiatives such as ACEP, credit unions and others. In that regard she states,

> How much all of these alternative projects will add up to in broadening financial intermediation beyond the formal banking sector is difficult to assess. In the coming period, however, this area will probably be the locus of creativity and innovation in the financial sector, as opposed to the formal banking sector.

A report by Ohio State University in July 1990 which reviewed the literature on formal and informal finance in Senegal had this to say about the same subject (Cuevas and Graham, pp. 10-11),

> The foregoing discussion suggests a potential contradiction between the improved privatization/restructuring/management objective and the improved credit allocation and outreach "to all sectors" (objective 5). Privatized banks struggling for financial liability (sic - read viability) will normally try to clean up their portfolios from small, high cost accounts, and concentrate their activities in safe, profitable sectors.

They went on to observe,

> Small-scale depositors and borrowers will probably be the most affected by this contraction of the system, thus highlighting the need to help develop and strengthen alternative means of financial intermediation to service those households and enterprises. The potential role of the informal financial sector and the prospects for development of savings and credit cooperatives deserve particular attention in this respect.

In sum, it is the position of the evaluation team that the assumptions underlying the expectation for increased sectoral and term diversification credit, specifically for perceived high risk activities in the SME and agricultural sectors, were unrealistic. As the comments above point out, the restructuring of a banking sector to improve financial solvency tends to lead toward more conservative lending policies rather than to broadening of credit, especially by private, commercial banks.

b. <u>A Brief Review of Current Credit Availability for Agriculture and SMEs</u>

Conversations with a limited number of small and medium-scale entrepreneurs and with persons having extensive knowledge of SME and agriculture credit programs in Senegal provided the evaluation team with information on the current availability of credit for agriculture and SMEs. Visits to a limited number of programs providing credit to these sectors were also made. Consequently, the following information is not meant to be definitive, but rather to provide an indication of the various sources of credit to these sectors and some details regarding their programs.

There was universal agreement among all parties that credit for agriculture and SMEs has contracted as a result of the banking sector reform. However, it is important to note that the contraction resulted largely from the liquidation of the failed banks which were largely parastatal banks which had been lending to these sectors. Prior to reform, the private banks had lent to these sectors only under pressure from government. Consequently, some argue that the post-reform evaluation of the risk in lending to these sectors is more appropriate.

The West African Enterprise Network, an association of over 150 businesspersons from eight West African countries (including about 30 from Senegal) which has received financial support from USAID and the Club de Sahel, held a regional conference in Ghana in November 1993. Its report on that conference presents action plans for various topics of interest to their members. The section on financial restructuring of private enterprise lists the following constraints on financing of SMEs in West Africa:

> The financial structure of most private enterprises is unhealthy. It is characterized by lack of equity, excessive debt, increase in the number of bad debts and financing of investment through short-term resources (overdrafts and supplier credits).
>
> There is a lack of tools to facilitate financial restructuring, due to (i) strong and unpredictable market fluctuations; (ii) frequent changes in the State's monetary, tax and social policies; (iii) the dissuasive fiscal cost of restructuring; (iv) absence of an adequate legal framework, especially bankruptcy laws; (v) a financial system poorly adapted to restructuring requirements of private enterprises.

The report adds,

> Banks consider modern sector enterprises as poor risks. Further, their own resources are drawn from short-term deposits which cannot be used for long term operations like restructuring.

It concludes with suggestions on how members might develop alternative financing mechanisms such as venture capital funds, investors funds, mutual guaranty mechanisms, etc. which would not depend on commercial banks, but could be used to entice banks to finance aspects of enterprise development.

1) Agricultural Credit

The only bank lending for agricultural credit to any extent is CNCAS, the only remaining bank with substantial ownership by the GOS. According to a CNCAS advisor, about eighty percent of their current portfolio is for rice growing in the Fleuve Region in the north. Very limited statistics were available on CNCAS operations. It is notable that the CNCAS advisor stated that he was not authorized to provide the evaluation team with a copy of the Annual Report! An unaudited report on CNCAS' account for 1991/92 showed that of CFAF 7 billion in credits, 21% were listed as doubtful or as overdrafts. Almost all persons interviewed expressed the opinion that CNCAS had uncollected debts considerably larger than those stated and that the bank was in severe financial trouble; most persons contended that CNCAS continues to be under GOS pressure to make loans to individuals with political influence.

Beside CNCAS, several commercial banks have participated in financing crop purchasing credit to SONACOS in the past. For the current peanut crop, SONACOS has teamed up with Citibank to promote an innovative program to raise funds from non-bank sources through the issuance of commercial paper under a 40% guarantee provided by Citibank. Although this offering will not cover all of SONACOS' financial requirements, it does offer an interesting alternative to intermediation through the formal banking sector in line with commercial paper offerings in Europe and elsewhere. Since this innovation will provide SONACOS with funds at lower rates than usually charged by the banks and provides greater returns for investors than they can receive from banks, it will serve to provide competition to the banking sector. The evaluation team was informed that the Caisse Française de Développement, the Fonds Européen de Développement and the Fonds Commun de Contrepartie de l'Aide Alimentaire are currently looking at this innovation to determine if it could be applied to the financing of crop credit for rice production in Senegal.

Other sources of agricultural credit are limited. SODEFITEX provides a substantial amount of credit for cotton growers through a group solidarity approach using Associations de Producteurs de Base (APB). The only other notable sources of agricultural credit seem to be informal moneylenders, supplier credit, the informal caisses villageoises or through the formal credit unions. The largest credit union network in Senegal is the CPEC/CICM. Their operations in the Kaolack Region and Tambacounda regions reported a total of CFAF 217 million outstanding credit as of the end of October 1993. According to management, the great majority of that credit is for credit de campagne to finance inputs, especially for peanut growing. Average loan size is about CFAF 90,000 (about $300 at exchange rates prior to the January 1994 devaluation of the CFAF). According to a poll taken by CPEC/CICM in 1993, about 20%

of their members are women; management estimates that the percentage of women receiving loans is about the same.

2) <u>SME Credit</u>

This section reviews two programs which provide funds through commercial banks and one which has established a separate private organization. Other programs for SME development exist, but time did not permit an exhaustive survey of all activities in this area in Senegal.

The World Bank finances the APEX program - a US$25 million line of credit for industrial development held in an account with the BCEAO and administered by the banks participating in the program. It was designed to assist private businesses as part of the Structural Adjustment Program. Businesspersons apply directly to the banks which participate in the program and the banks decide which clients qualify for this facility. Other than the BCEAO which administers the funds, there is no separate institution to oversee the operations of the APEX Funds. Since its establishment in 1988, seventeen loans have been made under this facility, all to large businesses located in Dakar, at an interest rate of 9.5% (compared to the current market rate of 13%) for an average loan amount of CFAF 300 million (over $1 million at 1993 exchange rates) for an average of seven years with a maximum loan to equity ratio of 80/20. None of the loans have been made to women. Banks utilizing this facility are SGBS (10), BICIS (5) and CBAO (2).

The African Development Bank has financed a CFAF 39 billion line of credit to be used to provide medium and long-term credit for SME development. This program is different from the APEX program in that a government agency, the Fonds de Promotion Economique (FPE), was created to oversee the operations of the fund. Like the APEX program, businesspersons also apply directly to the participating banks for a loan under this facility. However, after the banks approve the application, the FPE must also approve the application for a loan. Information is available on the program from the FPE office or the banks. A Cellule de Suivi financed by CIDA is attached to the FPE which provides assistance in preparing a business plan and loan application for qualifying clients. The maximum loan to equity ratio is 70/30. There are three windows under the FPE - a line of credit utilized by the banks, a fund to contribute 10% of project financing in special cases when the entrepreneur cannot afford the required 30% equity contribution, and a guaranty fund which will guaranty up to 50% of the amount financed by the bank. Funds are received from the AfDB at 8%, a 1% fee is charged for FPE operational costs and the bank can add up to four points over that for a net interest rate to the applicant of 13%. Since the FPE was created in November 1991, it has financed 1160 projects of which 47% were in the secondary sector, 28% in agro-industry, 17% in the tertiary sector and 8% in the health, education and culture sector. About 60% of the loaned amount has gone to businesses in Dakar and St. Louis has had about 55% of the projects financed. The average loan size has been about CFAF 500,000 ($1800 at 1993 exchange rates) with an average term of seven years. About 10% of the loans have gone to women. FPE staff claim that only about 8% of applications are approved. Banks utilizing the FPE in order of decreasing frequency are SGBS, BICIS, CBAO, CLS, CNCAS & Citibank. Discussions with persons familiar with the FPE claim that the FPE has been subject to political pressures although the evaluation team could not confirm this.

Since ACEP was created with USAID financing to provide credit to SMEs in January 1990, it has provided 5412 loans to 3793 enterprises with an average size of CFAF 325,000 (about $1200 at 1993 exchange rates) with a maximum term of 12 months. It requires collateral and loans cannot exceed 75% of collateral. Its headquarters are located in Dakar and it formerly served two regions. It has recently expanded to five regions with a total of nineteen branches covering most areas of the country. Loans are available only to businesses that have been in existence for at least six months and with a full-time owner. ACEP feels that medium and long-term loans to SMEs are too risky. Another interesting observation is that ACEP purposely does not hire any of its staff from the formal banking sector or donor community, since it feels that employees of those organizations are too used to big salaries, bureaucracies and low performance. 20% of ACEP's loans have been to women with about 11% of the volume. ACEP's sector breakdown is 38% to commerce, 37% to services, 15% for manufacturing and 10% for agro-industry. A key element of the ACEP project was its objective of becoming financially self-sustainable. It appears to have accomplished that objective, having shown a profit, net of donor assistance, for the past three years. The challenge for ACEP will be for it to convert its operations to a credit union in the near future.

A survey to measure the impact of the ACEP Project on its beneficiaries was conducted by the University of Connecticut at the same time as this evaluation. Unfortunately, the results of the data from this survey were not available to the AEPRP-II evaluation team in time to include them in this report. This information might have provided some further information to permit a better assessment of the extent of the coverage of current credit programs operating in Senegal. If the results are received prior to the completion of the final report, they will be included at that time.

c. <u>The "New Bank"</u>

The PAAD proposed that a "New Bank" (NB) be established as a part of the banking reform program which would receive the performing loans of the parastatal banks being liquidated. It was expected that the bank would be privately owned with a maximum GOS participation of 25%. The PAAD stated that the NB would keep 140 of the 515 employees of the banks being liquidated. It further stated that the NB would have "as an important part of its target market both small and medium-scale depositors and small and medium-scale enterprises that traditionally have not been fully served by the banking sector in Senegal. USAID will provide substantial technical assistance to the New Bank in order to improve its management and to enable it to find an external private partner." It was expected that the NB would use the postal system to provide a network for savings account collection and the services of a mixed public/private consulting firm (SONEPI) to analyze and follow the small and medium-scale portfolio.

The MEFP assigned staff to work on the creation of the NB and to draft working documents, with the assistance of BCEAO personnel, to be used in applying for registration from the BCEAO and to attract external partners. The evaluation team reviewed these documents and found them to be very thorough and clearly sufficient for initial approval by the central bank to register the NB. USAID provided a short-term banking consultant to assess the feasibility and probability of attracting external private banking partners to the NB. Although no written report on his consultancy was available, USAID staff stated that he had expressed the opinion that a private banking partner would probably not be interested in joining with the GOS in the bank under the share ownership structure as proposed.

The NB was never approved for registration by the BCEAO. The reasons for its refusal to register the NB are not clear. Opinions given by different parties involved range from 1) the government was not really interested in the NB, to 2) certain foreign banking interests thought the NB would compete with them and influenced the BCEAO to reject its application, to 3) the concept of the NB was not presented very well to the BCEAO.

Since the NB never began operations following the release of the first tranche of the program grant to the GOS, the PAAD and Grant Agreement were later amended to remove it as a condition precedent and to delete the technical assistance provided for the establishment of the NB.

Regardless of the reason for the refusal of the BCEAO to register the NB, the evaluation team believes that it was fortuitous that the NB was not implemented. This opinion is based upon a belief that the concept of the NB was based on faulty reasoning on three points.

1) With the impetus for the creation of the bank coming from the GOS and donors, as well as the emphasis placed on serving the SME sector, the bank would most likely have been viewed as a development finance institution rather than a commercial bank. Bearing in mind the current state of the CNCAS and the inability of the SNR to collect certain large debts from persons with political

influence, the potential for the NB to be used as another window for lending based upon political influence was very high.

2) The fact that the GOS would have had an ownership stake in the NB, coupled with the past history of the banking sector in Senegal, would have presented considerable problems in attracting a private sector banking partner. The proposed roles of the GOS-run postal service to collect deposits and the use of the combined publicly/privately-owned SONEPI to analyze and monitor SME lending would have also served to scare off private investors. The retention of the former employees of the failed banks as the employees of the NB would have been a third factor to discourage private participation in the bank.

3) The difficulties of utilizing the former employees of the failed banks to staff the NB has already been demonstrated in the SNR, who was forced to take employees from the same source. ACEP's policy of purposely not hiring persons who have come from the banking sector reflects the problems involved with this approach. SME programs elsewhere have tended to reflect the same policy as that taken by ACEP.

3. Recovery of Bad Debts

The SNR, which was created to handle the recovery of the bad debts of the failed banks, has not been as successful as expected, although the required minimum recovery levels specified in the conditions precedent were, in fact, met.

At its inception in 1991, the SNR inherited a portfolio later estimated by SNR management to be approximately CFAF 252.9 billion in bad loans from 7 financial institutions (all the banks that had been closed with the exception of the BCCI). Of that amount, the SNR estimated that it would be able to recover a net of about CFAF 77.2 billion, for a recovery rate of 30.5%. By the end of December 1993, the SNR had recovered 19.9 billion. The recovery amount represents cash collected, offsetting items, and proceeds from sales of assets (sales of foreclosed collateral as well as properties owned by the failed banks). Of the 57.3 billion in remaining collectable bad debts, it is estimated that the real estate securing them has a market value of between 2 and 3 billion. All the miscellaneous assets, such as automobiles, rolling stocks, furniture & fixtures, have recently been liquidated.

Portfolio of Bad Loans Inherited by the SNR
(CFAF millions)

BANKS	GROSS AMOUNTS	NET AMOUNTS	%
BNDS	128,670	56,800	44.1
BSK	48,690	9,800	20.3
SOFISEDIT	10,430	2,000	19.2
SONABANQUE	3,680	940	25.5
SONAGA	8,830	900	10.2
USB	45,455	5,700	12.5
ASSURBANK	7,100	1,200	16.9
TOTAL	252,855	77,212	30.5

Source: Société Nationale de Recouvrement

It should be noted that included in the amount of bad loans inherited were some CFAF 48 billion owed by the government and the various state-owned enterprises, either as direct loans or as loans guaranteed by the state. No recovery is expected from these debts.

With CFAF 20 billion in recoveries, the SNR has been able to refund 10.5 billion to depositors, primarily small depositors with individual balances of CFAF 26 million or less. It should be noted that the refunding of deposits has been proceeding with priority given to small accounts first; the limits have been gradually raised to the current level of CFAF 26 million.

It appears the SNR may have been created a little too late; it was established in June 1991, almost 2 years after the major problem banks had started liquidation in mid-1989. Prior to the creation of the SNR, the liquidation of the failed banks and recovery of their bad debts had been handled by a special Coordinator first and then by a special Liquidator, both appointed by the government. An audit by Coopers & Lybrand commissioned by USAID/Senegal in 1989 estimated a total amount of CFAF 193 billion in bad loans in the banks to be liquidated.

A second audit by Coopers & Lybrand was commissioned by USAID in October 1991 to determine the total amount in bad loans to be turned over to the SNR. That audit revised the total estimated amount of bad loans existing in 1989 upwards to CFAF 252 billion. Of that total, CFAF 12.7 billion was recovered between June 1989 and March 1991. According to SNR management, much of the recoveries during that period were mishandled, marked by numerous questionable deals, unjustified write-off's, selloff of valuable assets, and an unreliable accounting and documentation system. Actually, it appears that neither the Coordinator nor the Liquidator had sufficient authority to manage the liquidation and recovery of the bad debts, which were still left under the responsibility of the management of the failed banks.

The current problems of the SNR appear to be as follows:

Lack of Adequate Authority

The General Director has no authority to work out problems with the debtors. Every decision, from write-off to debt reduction and from sale of assets to refund of deposits, requires approval by the Board of Directors which meets only once a month. The General Director is not even a member of the Board. The tight system helps avoid abuses, but slows the process down in a significant way. A compromise system which gives the General Director some leeway, up to a certain amount of money, might help speed up the recovery process.

Staff Inadequacies

The SNR not only inherited the loans and deposits of the failed banks, but also many of their personnel (mostly from the BNDS). The current management has tried hard to reduce the staff from 246 persons to the current level of 73. But more serious than the problem of overstaffing is the qualification and the mental attitude of the employees. Management asserts that, generally speaking, they still seem to be accustomed to the old ineffective way and somehow attached to their old banks, often paying more attention to collecting debts for their old banks than the debts of other banks. Most important, according to existing rules, SNR is bound to keep former employees of the failed banks and is not allowed to go out in the market and hire more qualified personnel. Management contends that, in spite of this, the situation has improved somewhat in recent times.

Lack of Support

Management claims they lack sufficient support both from the GOS and from the judicial system. Although a state-owned institution, the SNR's administrative expenses are paid from the collection of bad debts and management asserts that this lessens the amount available for depositor refunds. Also, the SNR is accorded some tax exemptions, but is not exempted from all taxes. For instance, it has to pay TVA and import taxes on the imported equipment, e.g., computers, that it requires to perform its work. Management of the SNR believes that the government should allocate a budget separate from the recoveries to help pay SNR administrative expenses and that the SNR should be exempted from all taxes. The evaluation team does not find these arguments persuasive, however.

SNR's management also contends that they are facing a judicial system which is very imperfect and still dominated by political and personal relationships. It is interesting to note that many judges and lawyers are on the SNR's list of debtors.

USAID officials have also expressed frustration with interference in the operations of the SNR by the Board of Directors. They noted that a number of the recommendations of the consultants to improve the internal management and control systems have not been implemented.

Deposit Refund Policy

Along with the bad loans, the SNR also inherited the frozen deposits from the failed banks. These deposits are being refunded as recoveries of bad loans are being made. It is the SNR's policy to give priority to the return of small deposits. This has resulted in criticism by large corporate depositors who argue that the freezing of their large deposits for an extended period of time limits their ability to use these funds for working capital purposes and to expand their businesses. The issue has some economic validity, but from a social and political standpoint, the SNR's current policy seems justified.

Recoveries Seem to be Slowing Down

From its inception in June 1991 to December 1993, the SNR recovered CFAF 19.9 billion in bad debts, less than 8% of the gross amount of bad loans inherited or 25.7% of the total expected recoveries. The trend, however, is clearly downward. In the 6 months of 1991, the average monthly recoveries was CFAF 1,179 million. The following year, this average was down to CFAF 666 million. In 1993, the same average dropped to CFAF 301 million. The numbers are somewhat distorted by one month with over CFAF 5.4 billion in collections in 1991, and 2 months totaling CFAF 3.5 billion in collections in 1992. But even discounting these 3 months, the monthly average still shows a declining trend from CFAF 510 million in 1991 to CFAF 457 million in 1992 and CFAF 301 million in 1993. Furthermore, at this point, it is expected that the speed of recovery would be significantly slowed down in the future as the remaining cases involve the more recalcitrant debtors. Nevertheless, the slowdown of the recovery speed has not been totally unexpected. (It is important to note that the CFAF 19.9 billion recovered by the SNR came on top of the CFAF 12.7 billion recovered prior to its creation.)

On balance, the SNR has achieved considerable success in the face of the substantial political and management obstacles that it has encountered. In this regard, the role played by the two technical advisors has been critical in providing wise counsel based on experience gained in similar capacities elsewhere. As consultants, they lack any line authority to make decisions. However, they appear to have been successful in gaining the confidence of the Directeur General and the Board of Directors. This good working relationship has helped, in no small measure, to move the SNR in the direction necessary to resolve many of its difficulties.

4. <u>Banking Sector Monitoring System for the Ministry of the Economy, Finance and Plan (MEFP)</u>

In June 1992, with the approval of the GOS, USAID commissioned the design of a comprehensive computerized Management Information System (MIS) to be used by the Direction de la Monnaie et du Credit, the agency in charge of the control of the banks at the MEFP. The MIS was to compile all needed statistics and prudential ratios for all banks on a monthly basis. The MIS would also provide information on the macro-economic level (i.e. data about the volume of money M1 and M2), data on the non-banking credit union system, and other financial data to better ascertain credit deepening.

At the time of this evaluation, the system has yet to be implemented. According to the BCEAO's interpretation of current banking laws, the central bank is in charge of supervising monetary aggregates and prudential ratios, as well as of the audit of the banks while the MEFP is only responsible for supervising bank management and administration. Therefore, it contends that the GOS has no authority to collect financial data, except through the BCEAO. So far, the BCEAO has chosen not to share its data with the MEFP. Ministry officials have, nevertheless, tried to obtain the data from the BCEAO and hope that the MIS will be in place soon. USAID correspondence files revealed that attempts to obtain concurrence from the BCEAO in releasing the data have been going on for well over a year. It is uncertain whether current attempts will be more successful.

The existence of the MIS as proposed is certainly helpful for purely informational purposes. Otherwise, it is not clear what this MIS would accomplish. This evaluation was not seriously affected by the lack of data from the MIS since the team was able to obtain sufficient data from other sources. Numerous banking and financial data are now available in the BCEAO periodic statistical bulletins. The prudential ratios, meanwhile, are being compiled by the Banking Control Commission. In fact, much of the information that the proposed MIS is supposed to collect seems to be already available through the BCEAO, albeit in a different format. Likewise, should the GOS desire information on particular banks, it would seem simpler to request that information directly from the banks themselves, especially since the GOS has representatives on the boards of directors of numerous banks. On the other hand, the MEFP has no authority to dictate any monetary or credit policies within the framework of the WAMU. And even if it could exercise some authority, it would seem that any intervention by the MEFP would be counter to one of the banking reform program's major objectives, i.e., the disengagement of the GOS from the banking sector. Collection of the data could be justified from USAID's standpoint; however, since the AEPRP-II program is now completed, further efforts to collect this information would appear to be unwarranted.

III. SPECIFIC PROGRAMMATIC ISSUES

A. Program Design Assumptions; Key Factors Which Were Underestimated or Not Taken into Account

The key factors that appear to have been underestimated or misjudged are as follows:

1. The program design did not fully comprehend the effects of the consolidation of the surviving banks on improving access to credit. As explained elsewhere, the reform program led the bands to take a more conservative approach to credit rather than toward expansion of credit. The expectation that access to credit <u>from the commercial banks</u> would have increased was not realistic, under the circumstances. Based on experience with the commercial banking sector elsewhere in Africa, the expectation that commercial credit to SMEs and agriculture would be deepened, was highly over-optimistic.

2. Although the GOS agreed to a covenant in the Grant Agreement to maintain neutrality with regard to the debtors of the Senegalese banks, the Project Implementation Report (PIR) covering April - July, 1993 noted that an audit carried out in 1992 by the "Commission de Verification" concluded that the GOS had often interfered in SNR management. The PIR noted that recoveries of bad debt continued to be slow even though the amounts required by the CPs were met. It appears that the program designers underestimated the political influence of the debtors and overestimated the political will of the GOS in collecting the debt.

3. The program design did not analyze effectively the purpose of the monitoring system to be put in place with the MEFP. The creation of the system appears to have been driven more by a desire to have information for USAID purposes rather than to serve a useful purpose for the GOS. The evaluation team believes that the monitoring system was ineffective and could be considered, in some ways, contrary to a key objective of the reform, i.e., to reduce interference of the GOS in the banking sector.

B. Effectiveness of Conditions Precedent, Covenants, Technical Assistance & Program Management

The conditions precedent and covenants appear to have been appropriate and were used effectively by USAID to assure movement toward the goals, purposes and objectives of the program. Although not all of the covenants were met successfully, the evaluation team found no major problems with the management of the program by USAID. The only issue on which USAID/Senegal was questioned involved the failure of the BCEAO to license the "New Bank". This issue is discussed in detail in Section II.B.1 above. The evaluation team believes that USAID/Senegal acted in good faith in releasing the first tranche under the circumstances. The subsequent amendment to the PAAD and Program Grant to delete the NB as a CP was an appropriate measure taken to resolve the issue. Since the evaluation team believes that the concept of the NB was flawed in the first place, the team believes that its removal as a CP was a positive factor in the end result of the program.

The technical assistance that was delivered seems to have been effective. The decisions relative to technical assistance that was planned but not implemented appear to have been based upon changes in the program structure and were reasonable under the circumstances. The success of the program appears to have been based upon the constant attention and supervision by USAID employees rather than upon the technical assistance, per se. Based upon interviews with various parties and the results of the program, the evaluation team believes that USAID program management was very effective in achieving the objectives of the program.

C. Were the Expected Objectives/Outputs Realistic?

The great majority of the objectives/outputs relative to the purpose and objectives of the program were realistic and were achieved.

The indicators relative to achievement of the program goal were unrealistic in that reform of the banking sector by itself would not necessarily have led to the desired results. Even if they had been possible, it would have been very difficult, if not impossible, to attribute the changes to the banking reform, per se.

The expected outputs relative to increased access to credit and substantial recovery of bad debts were not realistic, as explained in Section A above.

D. Economic Impact of Program

This section provides an analysis of the macro-economic situation in Senegal before and after the banking reform program. Although the data used for this analysis depends largely upon estimates and projections and, as such, has limited usefulness, the analysis attempts to provide some indications as to the effects of the banking reform program on the economy.

1. GDP

The GDP has shown minimal rates of increase over the last 10 years. In constant 1987 prices, the GDP was recorded at CFAF 1,249.0 billion in 1983, CFAF 1,382.3 billion in 1987 and CFAF 1,552.5 billion in 1992. The rate of annual increase for the 5-year period 1983-1987 was 2.05%, while the same rate for the following 5-year period 1987-1992 was 2.35%, a very slight real increase. With a 2.4% average population increase per year, the real per capita GDP has actually been declining in the last 10 years. Preliminary estimates indicate GDP will shrink by 0.3% in 1993.

The contribution of the non-government sector declined from 22.3% in 1986 to 18.4% in 1993 (projection). The primary sector's share in the GDP reached the highest levels between 1986 and 1988, immediately prior to the banking crisis. This was probably the result of a policy that favored the agricultural sector through preferential treatment for crop credit (preferential discount rate and preferential ceilings). However, this treatment was one of the causes of the crisis in the banking system. The decline observed in 1989 was primarily caused by a bad harvest year.

The secondary sector seems to have stagnated during the last 5 years, indicating a lack of industrial development. The tertiary sector recorded a meaningful rate of increase, contributing 48.2% to the GDP in 1986 and 51.9% in 1993. This increase was largely due to the development of the commerce and the transportation sectors.

2. Balance of Payments

Between 1989 to 1992, the balance of payments was positive all along. This represents a substantial improvement compared to the years before that period when the balance of payments had always been negative. The improvement in the late 1980's and early 1990's was not, however, a healthy improvement as it was caused by:

- A lower deficit in the trade balance (from an average deficit of CFAF 115 billion a year in the early 80's to CFAF 82 billion a year in the late 80's) caused by lower imported oil prices and lower demand for other import products, reflecting a contracted economy rather than expansion of exports;
- A large positive balance of external transfers (average CFAF 83 billion a year in the latter part of the decade as compared to CFAF 60 billion in the earlier part) reflecting an increasing reliance on external support and aid from donors;
- The rescheduling of external debts which accounted for about CFAF 45 billion a year in the last 4 years;
- Accumulated arrears on external debt repayments which were as high as CFAF 27.4 billion, or more than 5 times as large as the balance of payments surplus.

The situation is expected to deteriorate in 1993 when a substantial deficit will be shown. As of June 1993, arrears alone amounted to over CFAF 110 billion. The GOS is negotiating with the IMF and the World Bank for a financial package that includes debt rescheduling and even debt forgiveness to alleviate the imbalance.

Balance of Payments: Selected Accounts (in CFAF Billion)

	1989	1990	1991	1992	1993
Trade Balance	-76.5	-73.7	-81.8	-97.4	-107.1
Services (Net)	-71.6	-55.8	-58.0	-57.7	-56.9
Transfers (Net)	84.9	80.2	82.8	83.8	79.3
Debt Resched	44.3	49.8	42.9	13.6	6.5
Arrears	11.4	-7.5	5.5	27.4	-0-
Overall Balance	30.2	17.8	5.5	5.4	-54.9

Sources: MEFP, Forecast & Statistic Directorate

Note: Figures for 1988-1992 are estimates; 1993 figures are projections

3. Budget Deficits

The GOS budget has been up and down in the last few years. The situation seemed to have improved from 1982 to 1988 as the budget deficit was steadily reduced from CFAF 70 billion in 1982 to CFAF 17 billion in 1988. In 1989 and 1990 the deficit surged back substantially due to lower tax revenues coupled with higher government expenditures, resulting in deficits of CFAF 31 billion (2.1% of GDP) and CFAF 46.4 billion (3.0% of GDP), respectively for the 2 years. In 1991 and 1992, the budgetary trend was reversed as the GOS reported not a deficit, but a positive balance for both years: CFAF 22.7 billion (1.4% of GDP) in 1991 and CFAF 3.7 billion (0.2% of GDP) in 1992. It should be noted that the above figures are old estimates. More recent data available at the USAID office points to a tiny excess of 0.2% of GDP in 1991, a deficit of 2.5% of GDP in 1992, and a projected deficit of 5.4% of GDP in 1993.

4. Private Sector Expansion

While the nominal GDP increased 29.8% in the 7 year period from 1986 to 1993, for an average 3.8% annual rate, the non-governmental sector's contribution went up 31.4%, for an average 4.0% annual rate. Nevertheless, the non-governmental sector contribution to GDP moved up just slightly from 89.6% in 1986 to 90.7% in 1993. It should be noted that the "non-governmental" sector (which includes primary, secondary and tertiary sectors, plus the public and parastatal enterprises as well) is used here instead of private sector as specific data on the private sector (i.e., excluding the public and parastatal enterprises) are not available.

A somewhat increased role of the private sector can also be seen in the overall level of national investment. Private investments rose from 68.4% of total investments in 1986 to 70.6% in 1993.

In the banking sector, credit to the private sector saw an upward trend in the last few years, growing from 61.5% of total credit in September 1988 to 66.8% in March 1993, a reflection of increases in both private investments and private consumption. These increases in investments and consumption led to a decline in private deposits which dropped from 78.5% of total deposits in the banking system in September 1988 to 63.8% in March 1993. The declining trend in private deposits became particularly acute in early 1992 as the year was marked by uncertainties in the financial market with persistent rumors about the devaluation of the CFAF.

5. Mobilization of Domestic Savings

The mobilization of domestic savings, as reflected by an increase in domestic deposits, especially time and savings deposits, can only be effective in the long run within the context of increased confidence in a healthy, profitable, and reliable banking system. The restructuring was a major step in that direction. Other measures taken, namely the elimination of double taxation on interest earned on time deposits and the liberalization by the BCEAO of interest rate ceilings on deposits, have had an immediate positive impact by increasing term deposits.

Available statistics compiled by the BCEAO show that between September 1988 and March 1993, total deposits in the banking sector increased 43.6%, from CFAF 271.5 billion to CFAF 389.8 billion. The increase was, however, largely centered on an increase in deposits from the public and parastatal sector (141.6% increase from CFAF 58.4 billion to CFAF 141.1 billion) while the private sector lagged behind (increase of only 16.7%, from CFAF 213.1 billion to CFAF 248.7 billion). As a percentage of total deposits, private deposits dropped from 78.5% to 63.8%, while public deposits, conversely, surged from 21.5% to 36.2%.

It should be noted that up until 1992, private sector deposits went up slowly but steadily, reaching a high of CFAF 293 billion in March 1992, before dropping sharply to CFAF 271 billion by March 1993. The upward trend might have reflected new-found confidence in the banking sector, while the recent decline was probably the result of severe capital flight during 1992 as the year was troubled by persistent rumors about an imminent devaluation of the CFAF.

The elimination of double taxation as well as the liberalization of interest rates on term deposits by the BCEAO have had a significant impact as total long-term deposits went up 77% during the period from 1988 to 1993, while short-term deposits declined by 4.6%. The increase, again, was concentrated on public and parastatal sector deposits.

Another indication of the faster increase of term deposits is the rate of increase of the volume of "broad money" M2 which went up 30.8% between 1986 to 1993, while the volume of "narrow money" M1 rose only 13.2% during the same period. As a percentage of GDP, M2 has remained constant at about 22% from 1986 to 1993, short of the targeted 27%, the level noted in 1983.

E. Impact of Program on Intended Beneficiaries; Gender Issues

It is clear that the restructuring of the banking sector has benefitted the entire citizenry of Senegal to the extent that, had it not been undertaken, most banks would have collapsed. Since any modern economy must have a healthy banking sector to function effectively, one can assert that all Senegalese benefitted from the reform program.

A large number of smaller depositors have also benefitted from having their deposits in the failed banks reimbursed by the collections of bad debts by the SNR. There was no data available from the SNR to ascertain the gender of the recipients of these reimbursed deposits.

The only significant area where the program did not have the impact anticipated was in the area of increased access to credit, particularly for SMEs and agriculture. However, the efforts of the reform program to assist in the establishment of a credit union movement in Senegal has helped to increase this access to credit. In regard to gender, it appears that women are receiving only marginal amounts of increased access to credit from that source.

As stated elsewhere in this report, it was unrealistic to expect increased credit for SMEs and agriculture from commercial banks since their natural and logical tendency would have been to tighten credit under the restructuring of the sector, rather than loosen it.

In this regard, it should also be added that credit to SMEs and agriculture is considered a risky investment in most countries and the shortage of credit to these sectors from banks elsewhere, including healthy banks and those in the industrialized economies, is well known. It is particularly risky to loan to start-up enterprises. Even in industrialized countries, most start-ups are financed by savings and loans from friends or relatives. Furthermore, most successful SME and microenterprise credit programs loan only to existing businesses with a track record. Since agriculture in Senegal suffers from regular, periodic droughts, it is likewise considered a risky investment by reasonable persons. Therefore, it was a large leap of faith to expect an increase in credit to these sectors, particularly from banks which were trying to improve their loan portfolios.

Since parastatal development finance institutions have acquired a bad reputation due to the political influence which is commonly put upon them to make unwise loans; and since this was a key factor in creating the conditions that put the banking sector in Senegal in need of reform; it does not make much sense to try to establish these types of institutions anew. Rather, a more effective strategy is to try to develop new, alternative institutions and funds which can utilize approaches and techniques which have worked elsewhere. The development of effective microenterprise credit programs, credit unions and venture capital funds has proven to be a viable means of substantively improving access to credit for small farmers and microentrepreneurs and, particularly, for women. It is suggested that more efforts in this direction would be more productive in trying to broaden and deepen credit in Senegal.

F. Response to GOS Needs and Concerns; Additionality Provided by USAID in Multi-Donor Program

The reform was a joint effort between the GOS, the BCEAO, the World Bank, the Caisse Française de Développement, and USAID. USAID was deeply involved, not only through the substantial financial support of US$ 35 million, but also through active and sustained participation in the design, implementation and follow-up of the entire reform program.

It is clear that USAID performed a particularly effective role in the banking sector reform. The government representatives interviewed expressed considerable appreciation for USAID's participation in the process and felt that the USAID representatives provided much assistance in thinking through the reform process.

The other donors also expressed their appreciation for USAID's role and felt that USAID had not only helped to convey the seriousness of the necessity for the reform to the GOS, but had served in an important capacity to assist in carrying out the reform on the ground.

G. Prospects for the Sustainability of Program Successes

The reform of the banking sector aimed, first of all, at saving it from collapse. In the longer term, its goal was the establishment of a healthy banking system that could promote domestic savings and help finance the development of key sectors such as agriculture and SMEs. The success in attaining the long-term goal is still subject to debate, but the short-term one appears to have been reached. The commercial bank network, in general, is more liquid, more solvent, and more profitable.

One should note, however, that the reform dealt mainly with macro issues, i.e., at the restructuring of the entire banking sector, e.g., disengagement of the GOS, privatization, improved management and supervision, money market, etc. At the individual bank level, there is no doubt that the bad loans existing at the start of the reform were the result of poor lending decisions by bank officers, sloppy legal documentation, inaccurate collateral valuation, lax follow-up, political pressure, etc. The large amounts of write-offs experienced by BICIS and SGBS in 1992 are tangible evidences of the lingering weaknesses of the loan approval process. Yet, the reform has not addressed these issues, at least directly. It was probably assumed that with the new management and the improved supervision, things would better by themselves. A more pro-active approach in these areas, e.g., through the promotion of training programs for bank personnel could help to strengthen the banks over the long run.

The one fly in the ointment in the banking sector is the CNCAS. Although it was difficult to obtain information on their operations, common opinion is that the bank is in severe financial troubles, largely due to continued influence from the GOS (which, including the shares of the failed BNDS held by the SNR, still holds a majority share in the bank) in the credit policies and decisions of the bank. When officials of the BCEAO were asked about their opinions on the CNCAS, they claimed that the Banking Commission had recently examined the accounts of CNCAS and were satisfied with the efforts being undertaken by bank management to correct any problems in this regard. It will be instructive to watch and see what happens to the CNCAS in the future to determine if the Banking Commission and BCEAO are really effective in controlling the excesses of a bank with substantial GOS ownership. It will serve as a test case for the long-term effectiveness of the reform. The CNCAS was not included in the USAID banking reform program because it was not perceived as being in trouble at the time the program was designed and because it was part of the World Bank and French programs.

As the reform continued to move along, on January 12th of 1994, the GOS, in consensus with all the 14 countries of the African Franc Zone, devalued the CFAF from a parity of 50 CFAF for 1 French Franc to 100 CFAF for 1 FF. The drastic devaluation will certainly create severe problems for the entire zone as prices will increase sharply to adjust to the new situation. In the week following the devaluation, the government decreed a freeze in prices of a few strategic goods and services and was reviewing all import tariffs; but prices of many other products and services increased between 30% and 50% during that first week. Other events have occurred and additional actions have since been taken, but a full analysis is beyond the scope of this report.

A lot will depend on the complementary measures that will be taken by the GOS in the days ahead, and in the long-term, the devaluation possibly might boost the development of domestic production. In the short run, the banking sector will probably feel the following impacts:

- The general increase in prices will cut into savings, thus creating more difficulties for the mobilization of domestic deposits; it is expected that some funds which had been transferred out of the country may come home, but that will depend on whether the country can successfully control the impact of the devaluation and regain the confidence of the depositors.

- As a measure to tighten money and avoid running inflation, the BCEAO has raised the discount rate by 4 points, to 15%. It is not certain that the banks will follow suit as they are now less dependent on the central bank's discount rate than before.

- Several importers will have serious problems paying for their purchases ordered before the devaluation; the repayment of some import loans will be affected.

- A large part of bank credit is now used to finance short-term import transactions, which will seriously be impacted by the devaluation.

- As almost all machinery and equipment are imported, capital investment and demand for term credits will most likely decline.

It is clear the devaluation may negatively affect the banking sector in the short term. But it is also indisputable that with the reform, the banking sector is much improved and is better prepared to withstand any negative impacts.

IV. CONCLUSIONS AND LESSONS LEARNED

A. Overall Assessment

The evaluation team concluded that the program was an overall success. The program achieved it purpose and most of its objectives relating to the restructuring of the banking sector and made considerable progress in regard to increasing access to credit for SMEs and agriculture, particularly in regard to the establishment of credit unions. Although there were some significant shortcomings and weaknesses, the program should be considered as having been a positive use of USAID funds.

B. Principal Successes of the Program

1. AEPRP-II Succeeded in the Following Aspects:

    a. The banking sector has been consolidated and the remaining private banks, for the most part, are solvent, more liquid, profitable and better managed.

    b. Banking supervision has improved through the creation of a regional banking control commission.

    c. Reserve requirements have replaced credit ceilings as a means of control of credit exposure by individual banks.

    d. Government ownership and interference in the banking sector has lessened significantly.

    e. The foundation for the establishment of a legal and institutional framework for credit unions has been laid. This is significant in that it provides the basis for an appreciable increase in availability and access to credit for SMEs and agriculture in the future.

    f. Donor coordination was excellent and USAID's role in the program has been particularly effective.

2. Lessons Learned Regarding the Successes of the Program:

    a. Program grants tied to conditions precedent can be very effective in changing government policies, if they are perceived to be in the government's interest.

    b. Effective donor coordination is critical to the success of major structural reforms of the economy. Donors should perceive their roles as being complementary to each other, with each donor focusing on a special aspect of the reform.

c. Effective monitoring of the process of change by USAID and participation in day-to-day meetings and communication was extremely important in the restructuring of the banking sector. The use of five separate disbursements tied to specific conditions was particularly effective in this regard.

d. Exploring alternative mechanisms for financial intermediation outside the formal banking system is essential in improving access to credit to SMEs and agriculture.

C. Principal Shortcomings of the Program

1. <u>Areas in Which AEPRP-II has had Limited Success or Failed</u>:

a. The reform of the banking sector does not appear to have had a major impact on the improvement of the general economy. In fact, the restructuring of the banking sector could not have been expected to improve the economy by itself. However, it is clear that without the restructuring of the banking sector, there would have been no possibility at all for an improvement of the economy. More efforts are required to adjust the structure of the economy in other areas if a general improvement is to be accomplished.

b. The program has not resulted in a significant increase in sectoral or term diversification of credit from commercial banks. Medium-term and long-term credit remain in short supply.

c. Access to credit for SMEs and agriculture has not been significantly increased from the formal banking sector; if anything, it appears to have decreased due to the liquidation of parastatal banks which previously provided credit to these sectors. Some critical assumptions made in program design regarding lending to this sector were flawed.

d. Mobilization of private sector deposits has not succeeded due to capital flight as a result of an uncertain domestic economic environment.

e. Although a considerable amount of the bad debts of the liquidated banks has been recovered, a substantial amount remains uncollected and prospects for recovery of the remaining debts are not good.

f. The banking sector monitoring system to be used by the GOS was not implemented. However, the evaluation team believes that the concept of the monitoring system had some major design problems.

2. <u>Lessons Learned Regarding the Shortcomings of the Program</u>:

   a. Banking sector reforms and restructuring by itself can not effectively change the structure of an economy. Attributing overall changes in the economy to banking sector improvements alone is very difficult, if not impossible.

   b. Improvement of access to credit through private commercial banks, especially to sectors perceived as being highly risky, cannot be accomplished through a program to improve financial viability of banks; rather, it tends to decrease credit to those sectors since banks will be predisposed to take more conservative approaches to credit and seek less risky investments to improve their profitability and solvency.

   c. In order to have an effective program to collect bad debts from failed banks, one must analyze both the structure of the debt and the practicality of its collection. The program underestimated the political influence of the major debtors of the failed banks and overestimated the political will of the GOS to put pressure on the debtors.

   d. In order for a monitoring system to be effective, the institution doing the monitoring must 1) find it in their interest to monitor the object/institution/sector being monitored, 2) must have a cost-effective means to obtain the data, and 3) must be able to use the results of the data to achieve a desired effect on the object/institution/sector being monitored. It appears that the program designers did not analyze these issues thoroughly regarding the program monitoring system.

V. RECOMMENDATIONS

A. In Senegal

The evaluation team recommends that USAID/Senegal consider the following activities to follow-up the banking reform program.

1. Further Projects to Deepen Access to Credit for SMEs and Agriculture.

USAID/Senegal should consider funding other projects to develop alternative financial mechanisms to provide credit to microenterprises and for agricultural inputs. ACEP and support for credit unions was an important first step in this direction. ACEP's program is targeted at small-scale enterprises and credit unions cannot serve all of the credit needs in Senegal. There is a need to fund other pilot projects to explore the feasibility of other institutions to provide credit to these groups. Past projects and efforts by USAID/Senegal have been effective in this direction. It should put more effort and money into these activities, rather than pull out of this sector.

The credit unions in Senegal are providing credit at a microenterprise level (average loan size is about $300) for various agricultural and other business uses. Other microenterprise credit programs in Africa and other parts of the world frequently have substantial participation by women. USAID should consider funding some pilot projects in the microenterprise and agriculture sectors along the lines of these programs in Guinea. Guinea has three, well-functioning credit programs which provide savings mechanisms and credit and could be instructive for Senegal. These programs are reviewed in Annex 4. Well-structured microenterprise credit programs can offer substantial results in reaching large numbers of individuals, particularly women, with minimal donor investment. USAID has particular expertise in this field and has additional, centrally-funded resources to help structure a microenterprise project in Senegal.

USAID might consider funding a study tour to the programs in Guinea by key individuals in the NGO community and the GOS as a first step in determining if these mechanisms could be adapted to Senegal.

2. Training for Bankers

USAID/Senegal should consider supporting further training of managers in the private banking sector in Senegal. This would help to solidify the positions of the banks under the reform program. This support could involve supporting training courses in Dakar as well as overseas. Exposure to alternative banking systems and procedures could also help to improve the banking system in Senegal.

3. Support for Local Business Groups to Develop Alternative Credit Sources for SME Finance, such as Venture Capital Funds

The evaluation team met with a number of individuals in the SME sector in Senegal to discuss their problems in obtaining finance. Some innovative methods are being used to develop finance sources outside the banking sector. Of particular note are an investors' club formed by the Senegalese members of the West African Enterprise Network and another attempt by some Senegalese businesspersons to collect money from investors to establish a bank, called BACIC, which would target SME investment. While the team does not necessarily endorse these particular efforts, they exemplify potential avenues for alternative credit mechanisms for SMEs in Senegal, particularly at the higher end. USAID should consider assisting these types of groups through technical assistance and institutional support to help them explore the feasibility of their activities.

B. World-Wide

The following suggestions are made regarding the design of future USAID programs to reform banking sectors in other countries.

1. Use of Funds - Program vs Project Assistance

The use of program grant funds can be effective in changing government policies toward the banking sector, if the conditions are dire enough and the government perceives it to be in their interest to change. The use of multiple disbursements based upon conditions precedent was effective in this case. However, the key element in the Senegal case was the coupling of these disbursements with regular monitoring and participation in the process of reform. The team suggests that the design of similar programs elsewhere should emphasize these elements.

On the other hand, the deepening of credit requires the development of alternative financing mechanisms which are more adapted to a projectized form of assistance. A project is better able to provide both technical assistance and an structure to implement an experimental form of finance. The credit vehicles in Senegal which have succeeded in this regard are ACEP, the credit unions and those of other NGOs. Projectized assistance was the principal means of effecting these changes in approach.

2. Donor Coordination and Complementarity

The Senegalese case provides a good example of how multiple donors can provide a critical mass of pressure on a country's government to change their policies. It is doubtful that the banking reform program would have succeeded with only one source of donor funds. A number of individuals observed that having all three donors involved in the reform helped to emphasize the seriousness of the reform to the government. The acknowledgement of different roles and acceptance of their complementarity was a second important factor in the success of the program. Programs designed in other countries should try to implement a similar approach.

ANNEXES

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ANNEX 1

SCHEDULE AND LIST OF PERSONS/ORGANIZATIONS CONTACTED/INTERVIEWED

In Washington, DC

12/21/93	-	Meeting with John Breslar, CDO/Senegal, A.I.D.
1/3/94	-	Meeting at AFR/ONI, A.I.D. for briefing by Richard Vengroff and Lucey Creevy, University of Connecticut re the impact evaluation of the ACEP Project
	-	Arrange appointments for week
	-	Collect relevant documents
1/4	-	Arrange appointments
	-	Collect and review relevant documents
1/5	-	Meeting with Richard Greene, former Program Office Economist for USAID/Senegal during the design and early years of implementation of the AEPRP II program
	-	Meeting with Brian Ngo, former World Bank economist in Senegal during the initial years of the banking reform program
1/6	-	Meeting with Eric Nelson, DAI, consultant to USAID/Senegal on the bank monitoring system for the AEPRP II program and a June 1993 review of program progress
	-	Meeting with Laurie Landy, A.I.D. Project Officer and former U.S. Reserve Bank officer who visited Senegal in March 1992 to review the design and progress of the AEPRP II program in Senegal
1/7	-	Meeting with Pascal Bouvier, IMF official responsible for Senegal
	-	Meeting with Phillip Berlin, former World Bank officer who led the team designing the banking reform program and consultant to USAID/Senegal to recommend a system of required reserves for Senegalese banks in the CFA zone
1/10	-	Team departs Washington

In Senegal

1/11	-	Team arrives in Senegal

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1/12	-	Initial briefing with Jan Van der Veen, Program Officer, Colette Cowey, Program Economist, and Ousmane Sane, Economist, USAID/Senegal
	-	Briefing with Julius Coles, Director, and Douglas Sheldon, Deputy Director, USAID/Senegal
1/13	-	Meeting with Maguette DIOP, former Citibank official and current director of M. R. Beal & Cie., a joint venture financial consulting company with an African-American partner
	-	Collect and review documents
1/14	-	Meeting with Sangone AMAR, Operations Officer, World Bank/Senegal Regional Mission
	-	Meeting with Galaye SECK, Director of Money and Credit, Ministry of the Economy, Finance and Plan (MEFP)
1/15	-	Review documents
	-	Draft workplan
1/16	-	Off
1/17	-	Meeting with Jean-Claude FERNANDEZ, Directeur du Département de la Clientèle des Particuliers et des Institutionels, BICIS
	-	Meeting with Abdou NDIAYE, Directeur Général, Société Nationale de Recouvrement (SNR)
	-	Meeting with Pierre-Marc BOY and Jean François CAVAT, Consultants to the SNR
1/18	-	Meeting with Guy POUPET, Directeur Général de l'Exploitation, Société Général de Banques au Sénégal
	-	Meeting with Colette COWEY and Ousmane SANE of USAID/Senegal to discuss proposed workplan.
1/19	-	Meeting with Dr. Ibrahima Malick DIA, Président/Directeur Général, SISPA
	-	Meeting with Alia Diéne DRAME, Conseiller Technique, PRIMATURE and former Coordinator for the Banking Sector Reform for the MEFP
1/20	-	Meeting with Mame Cor SENE, Technical Counselor, MEFP and Senegalese Board Member of BCEAO
	-	Meeting with Marcelline SYLLA, Director, and Mbaye SARR, Cellule d'Assistance Technique aux Caisses Populaires d'Epargne et de Crédit, MEFP
1/21	-	Meeting with Jean-Claude GALADRIN, Caisse Française de Développement (CFD)
	-	Meeting with Marc JAUDOIN, Sous Directeur, CFD

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- Meeting with Michel FLESCH, Conseiller, Mission de Coopération de France
- Meeting with Yves LEON, Directeur Général, Antenne de Tambacounda, Caisses Populaires d'Epargne et de Crédit - Centre Internationale de Crédit Mutuel (CPEC-CICM)

1/22 - Team meeting to review progress, determine gaps in information and sources, and plan upcoming work. Draft report outline and review documents.

1/24 - Team briefing with Jan VAN DER VEEN, Colette COWEY and Ousmane SANE of USAID Program Department to discuss evaluation report outline and preliminary findings and conclusions.
- Meeting with Gilles COLASANTI, Directeur Général Adjoint, CBAO
- Participated in meeting in USAID Director's office with representatives of the Enterprise Network of West Africa, an association of West African businesspersons
- Meeting with Germain CAUGANT, Conseiller Technique, Caisse Nationale du Crédit Agricole du Sénégal (CNCAS)
- Meeting with Sega BALDE, Directeur des Risques et du Contentieux, BICIS and Délégué de l'Institut Technique de Banques au Sénégal

1/25 - Meeting with Abdou KANE, Conseiller Technique to CNES
- Meeting with Pierre-Marc BOY and Jean Francois CAVAT, Conseillers Techniques to SNR
- Attended presentation by Lucy CREEVY, University of Connecticut, on preliminary results of ACEP Impact Study
- Discussion with Ousmane SANE, USAID, re types of agricultural credit
- Meeting with Galaye SECK, MEFP

1/26 - Meeting with Mayoro LOUM, Director, ACEP
- Meeting with Julius COLES, Director, USAID/Senegal

1/27 - Meeting with Cheikh Oumar Tidiane TALL, Administrateur, Consortium d'Etudes et de Promotion Industrielle et Commerciale ((CEPIC)
- Silcox travels to Kaolack
- Meeting with Matthew WARNING, Fulbright Scholar in Kaolack studying agriculture credit
- Meeting with Jean-Noel ROUET, Directeur, CEPC-CICM Headquarters in Kaolack and Boubacar BA, Directeur Général, Antenne de Kaolack
- Silcox returns to Dakar

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	-	Meeting with Birame SENE, Chef du Service Crédit, Banque Centrale des Etats d'Afrique de l'Ouest (BCEAO) and Djibrill CAMARA, Deputy Chef du Service Crédit
1/28	-	Meeting with Abdoulaye NDIAYE, Directeur Général, Institut Supérieur Africain pour le Développement de l'Entreprise and Marie BA, Expert Comptable Diplomé, Management Business Audit (MBA)
1/29	-	Begin drafting report
1/31	-	Arrange for remaining meetings
	-	Meeting with Colette COWEY on progress update and schedule for rest of consultancy
	-	Draft report
2/1	-	Meeting with Aminata SAKHO, Administrateur, and Cheikh DIOUM, Directeur Chargé des Etudes, Fonds de Promotion Economique
	-	Follow-up meeting with Sangone AMAR, World Bank, re APEX Program
	-	Draft report
2/2	-	Meeting with Papa T. GNING, translator, at USAID with Saida DOUMBIA, Administrative Assistant and Souleymane DIAKHATE, head of USAID translation services
	-	Draft report
2/3	-	Meeting with Jean-Paul FERLAND, Principal Economist, Canadian Embassy
	-	Meeting with Colette COWEY & Ousmane SANE, USAID, for progress report and schedule for remaining days of consultancy
	-	Draft report
2/4	-	Meeting with Abdou NDIAYE, Directeur Général, SNR, to review the principal findings of the evaluation vis-a-vis the SNR
	-	Meeting with Seydou CISSE, Evaluation Officer for USAID to discuss the format and other requirements of the evaluation report
	-	Submitted a preliminary draft of Chapters I & II of the report to C. COWEY & O. SANE, USAID
	-	Draft report
2/5	-	Draft report
2/7	-	Meeting with C. COWEY and O. SANE to receive comments on the Draft of Chapters I & II
	-	Submitted complete first draft of report in English

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and annotated outline in French to USAID

2/8	-	Meeting with C. COWEY & O. SANE, USAID, to receive comments on the last three chapters of the draft report
	-	Meeting with Galeye SECK, MEFP attended by C. COWEY & O. SANE to discuss annotated outline
2/9	-	Meeting with O. SANE for more information to refine items in draft report
	-	Meeting with Camille MOREAU, SDID advisor to the BCEAO on credit union legislation
	-	Revise draft report
2/10	-	Revise draft report
	-	Meeting with review committee at USAID to receive their comments on the first draft of report
2/11	-	Revise draft report
2/12	-	Revise draft report
2/14	-	Revised draft report submitted to USAID
2/15	-	Debriefing with Julius COLES, Director, USAID/Senegal
	-	Final meeting with C. COWEY & O. SANE
2/16	-	Team departs Senegal

In Washington, DC

2/17	-	Team arrives in Washington, DC
2/18 - 2/25	-	Completion of final report

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ANNEX 2

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ANNEX 3

COUNTRY PROFILE &

THE BANKING SECTOR CRISIS BEFORE THE REFORM PROGRAM

I COUNTRY PROFILE

Located on the extreme west side of Africa, Senegal has a land area of 197,000 square kilometers. The capital, Dakar, is a large modern city of over 1.5 million inhabitants. Senegal has a population estimated to be 7.3 million in 1991. 38% of the population live in urban areas, especially around the Cap Vert (Dakar) region. The rural population is mostly concentrated in the groundnut basin east of the capital (Thies, Kaolack, Fatick, Diourbel), and up north, along the Senegal river.

Senegal gained full independence from France in January 1959 when it formed the Federation of Mali with French Soudan. In August of the same year, as the Federation broke up, Senegal and Mali became two independent countries. Senegal converted from a one-party state under President Leopold Senghor to a multi-party democracy in 1978. The current President, Abdou Diouf, succeeded Senghor in 1981. He has been reelected twice, in 1988 and 1993, and can stand for re-election in the year 2000. The political situation remains marked by a vocal opposition which has been gaining votes in recent elections for the National Assembly as well as for local governments.

The Senegalese economy is largely dependent on one crop - groundnuts, which is subject to climate vagaries as are millet and rice, the country's two main staple foods. Considerable efforts have been spent to shore up other industries, such as fishing, cotton, phosphates and petroleum products, with limited success.

The primary sector - agriculture, fishing, livestock, and forestry, accounts for a quarter of the Gross Domestic Product but supports three quarters of the population. In 1984, as part of the new disengagement policy, the government substantially reduced its direct intervention in the agricultural sector, effectively discontinuing the practice of setting prices, holding monopoly purchasing powers, distributing fertilizers and other agricultural inputs, and providing credit to farmers. The financing of seed, fertilizer and equipment purchase was turned over to the newly created Caisse Nationale du Crédit Agricole du Sénégal (CNCAS) while the system of marketing cooperatives was abolished.

The manufacturing sector accounts for less than 20% of GDP and is largely centered in and around Dakar. It is predominantly oriented toward food products, textiles and chemicals (fertilizers). The government, which formerly dominated this sector, has been actively

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engaged in a privatization process and, to some degree, in the promotion of small scale enterprises. An industrial free-trade zone has been established in Dakar.

Overall, the economy of Senegal has grown in a very erratic manner, largely dependent on the production of the main crops, their export prices, and on the price of imported oil. Based on constant 1977 prices, the GDP has grown by 2.3% a year between 1960 and 1989. The population, meanwhile, increased by 2.4% a year, resulting in a decline in real per capita income over the last 3 decades.

II. MACRO-ECONOMIC ADJUSTMENT PROGRAMS

By the end of the 70's, the economic policies promoted in the name of "African Socialism" and characterized by a massive intervention of the State in all aspects of the economy left Senegal with serious economic problems. Although it was not seriously affected by wars and other civil unrest, such as a number of other neighboring countries, Senegal remained with one of the lowest rates of growth and with high budget deficits and negative balance of payments.

A medium-term adjustment program was launched in 1979 for the period 1980 - 1984 to stabilize the financial condition of the country, but did not yield satisfactory results. A new program was put in place in 1984 for the second phase 1985 - 1992, financed by the World Bank, the IMF, the IBRD, the French Caisse Française de Développement and USAID. The Banking Sector Reform being evaluated is part of this overall adjustment program.

III. THE BANKING SYSTEM CRISIS

A. Organization of the Banking Sector

The Senegalese banking sector is organized under a three-layer system, from the regional Central Bank with national agencies to the commercial banks.

1. Regional and National Institutions

During the French colonial period, Senegal was the center of the French West African Federation that included several west African nations. Following independence in the late 50's, these countries remained closely associated. Senegal is a member of the seven nation West African Monetary Union (WAMU - now the West African Economic and Monetary Union or WAEMU), along with Côte d'Ivoire, Niger, Togo, Mali, Benin, and Burkina Faso. As member of the Union, these countries share the same freely convertible currency (the Franc de la Communauté Financière Africaine or FCFA), the same interest rate structure, the same monetary and credit policies, and the same Central Bank (the Central Bank of West African States, or BCEAO from its French acronym) headquartered in Dakar. The WAMU is one of the 2 monetary unions operating in the Franc zone in Africa, the other union being the 6-nation Central African Monetary Union.

The WAMU was created in 1962 as a regional decision center for monetary policies that would be applied to the entire region. The WAMU's Board of Directors consists of two representatives of each member country as well as two representatives of the French government. The Board determines regional monetary and credit policies with the goal of maintaining the parity of the CFA Franc with the French Franc by keeping an adequate net foreign assets position for the monetary union as a whole. France provides support for the maintenance of the convertibility of CFA Francs into French Francs by extending overdraft facilities through the BCEAO's operating accounts with the French Treasury.

The BCEAO has a National Agency in each of the member countries to work closely with individual National Credit Committees in the implementation of national monetary and credit policies. The Senegalese National Credit Committee is chaired by the Minister of Economy, Finances and Planning (MEFP), who is also the principal representative of Senegal on the Board of the BCEAO. The other members of the Committee include the second Senegalese representative on the Board of the BCEAO, the Ministers of Industrial Development, and of Rural Development, and the Director of the French Caisse Française de Développement.

2. Commercial Banks

Prior to the reform, the banking system in Senegal included 15 commercial and development banks, and 7 non-bank financial institutions. The Government of Senegal participated in the direct or indirect ownership of 11 of the 15 banks, for a total of 31.5% control of the Senegalese banking system. The GOS had controlling interest in 4 banks (BNDS, SONABANQUE, SOFISEDIT, and USB) and one financial institution (SONAGA).

From a market share standpoint, there was a substantial concentration in the five largest banks, which accounted for close to 80% of total assets (TA) of all banks, and 77.2% of all private deposits (TD) in commercial banks in 1988.

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Market Share of the 5 Largest Commercial Banks in 1988

BANK		% TA	% TD
Banque Nat. De Develpm. Sénégalaise	BNDS	31.5	6.2
Union Sénégalaise de Banques	USB	15.4	15.4
Société Gén. de Banques au Senegal	SGBS	12.2	22.6
Banque Int'l Pour le Comm. et l'Ind.	BICIS	10.4	18.3
Banque Int'l Pour l'Afrique Occid.	BIAOS	9.5	14.7
TOTAL		79.0	77.2

B. Problems and Causes of the Banking Crisis

1. Problems

By the early 1980's, the Senegalese banking sector was in serious trouble, marked by poor liquidity, low profitability and inadequate capitalization. Several measures taken, including direct intervention by the BCEAO and the Government of Senegal in the form of debt consolidation and refinancing and capital injection, failed to correct the situation.

By the late 1980's, the crisis attained such proportion that the entire banking sector appeared to be near collapse:

- By September 30th, 1988, the level of bad and doubtful debt of the entire banking system exceeded CFAF 239 billion (about US$ 900 million at the then prevailing exchange rate), or 45% of total loans outstanding and 28% of total assets of all the banks.

Condition of the Banking Sector in 1988 (in billion CFAF)

	TROUBLED BANKS	HEALTHY BANKS	TOTAL
LOAN PORTFOLIOS	323	166	489
DOUBTFUL LOANS	233	6	239
CAPITAL & RESERVES	36	29	65
DISCOUNTS WITH BCEAO	167	30	197

Source: Senegal Stabilisation, Ajustement Partiel et Stagnation; Banque Mondiale, Septembre 1993.

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- Several banks ran short on cash and were unable to honor requests for deposit withdrawal and check payment. Even the government was affected as 9% of tax revenues (CFAF 22 billion as of June 30, 1989) were paid with checks drawn on illiquid banks, causing a severe loss in state revenues.

- Of the 15 commercial banks in operations, 9 were in an illiquid and insolvent condition, failing to meet prudential ratios. All the state-owned banks were in this category. Of the 7 non-bank financial institutions, 2 were in a similar condition, including one owned by the GOS (SONAGA).

- The GOS had a legal obligation to cover outstanding loans of affected banks when these loans were discounted with the BCEAO. As of September 30, 1988, the total of such discounts from the 9 problem banks amounted to CFAF 173 billion (US$ 540 million).

- Senegal was not the only country in the WAMU system to be hit hard by the banking crisis. The WAMU's net foreign asset position deteriorated sharply in the early 1980's, eventually turning negative. Union-wide banking reform measures were then taken to tighten the monetary and credit policy management. Senegal, the second largest country of the WAMU, was drawing most heavily on the operations account, and required stronger measures than most.

2. Causes

The causes of the banking crisis were numerous -

a. A Deficient Banking System

At the root of the problem, the banking system in Senegal was very deficient. It included poor management, bureaucratic procedures, labor redundancy, flawed accounting systems, low quality customer service, a thin branch network heavily concentrated in a few urban centers, and no effective marketing programs to attract customers.

b. Inability to Mobilize Domestic Deposits

The above deficiencies were compounded by the poor performance of the banks, resulting in a general lack of public confidence in the system. In addition, no interest was paid on demand deposits (to reduce bank costs) while interest earned on time deposits was penalized by double taxation. The banking system, as a whole, failed to attract domestic deposits and had to rely heavily on discounts with the Central Bank for sources of funds. The formal banking system also had great difficulties competing for funds with housing investment, considered by many as the safest investment, and with the informal financial market.

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c. Poor Operating Performances

The high cost of discounting with the Central Bank reduced the banks' spread to very thin levels, causing many banks to remain unprofitable and becoming increasingly undercapitalized.

d. Government Intervention

Excessive government intervention was reflected in three areas:

- Ownership and direct control of the majority of banks;
- Relatively easy guarantees were provided for uneconomic loans to public enterprises (more than 20% of the bad debts held by the failing banks were guaranteed by the government);
- Direct pressure on bank lending decisions resulted in many loans being approved against prudent lending practices, thus frequently turning into bad loans and diverting funds available for good loans.

Government intervention was particularly heavy-handed in the ONCAD disaster in 1980. The Office National de Coopération et d'Assistance au Développement (ONCAD) was a parastatal agency whose principal responsibilities included, among others, the purchase and distribution of agricultural inputs as well as outputs for export on credit. During the 1970's, ONCAD frequently forgave debts to farmers falling victim to the several droughts that characterized this period. ONCAD was also plagued by poor management and inaccurate accounting, and was severely abused by the farmers through numerous loopholes. Under pressure from the donors, ONCAD was dissolved in October 1980, and the BCEAO rejected all rediscounted papers. A detailed audit done in 1982 showed ONCAD debt at CFAF 64.3 billion in principal and CFAF 29.7 billion in unpaid interest, for a total of CFAF 94 billion. The GOS intervened by forcing the entire banking system to share in the losses, creating severe hardship for an already weak system. The ONCAD debt was refinanced as follows (principal only):

BNDS	21.5
USB	10.5
BSK	0.4
BIAO-S	9.4
SGBS	10.1
BICIS	12.4
TOTAL	64.3 CFAF Billion

Source: Monetary management in Sub-Saharan Africa: Senegal; Eric Nelson.

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e. Lax Supervision and Control

A system for supervision and control was in place but never earnestly enforced, due to unclear delineation of authority between the Ministry of Finance and the BCEAO. Few corrective actions were taken when banks failed the prudential ratios. The Central Bank once noted that only 55% of the total credit received prior authorization while that prior authorization system had been put in place to ensure a 80% review rate. Past-due loans were allowed to remain indefinitely on the books while no serious attempts were made to collect them.

f. Faulty Discount System

Prior to the reform, as a member of the WAMU, Senegal was assigned a country credit limit by the BCEAO. This provided an overall level of "ordinary" credit, i.e., all credit except short-term crop credit, which was eligible for discounting through the BCEAO. This country credit ceiling was, in turn, translated into bank-by-bank ceilings imposed on the banks' discounted credit as well as overall credit. The respective ceilings were to be determined by a series of criteria such as market share of the banks, liquidity and solvency positions, portfolio quality, etc.

Although interest rates were not used as an instrument of monetary control, the WAMU did implement its credit policies through the discounted interest rate (which consisted of both a normal discount rate and a preferential discount rate for certain types of lending) along with the limitations on government borrowings.

At the national level, the control of credit was also exercised through 1) a policy of prior authorization by the National Credit Committee for approval of loans in excess of CFAF 70 Million, in an attempt to maintain a good quality loan portfolio, and 2) a mechanism of sectoral credit limits, supposedly to avoid credit concentration and to assure credit availability to certain sectors of the economy.

The BCEAO's discount system created several problems:

- The high cost of discounting kept the banks' profitability at very low levels;
- The credit and discount ceiling system not only restricted inter-bank competition, but also was tilted in favor of weak banks which were unable to attract funds from other sources, resulting in a disproportionate amount of bad debt being discounted.
- The sectoral credit policy and the prior authorization system tended to impede the loan approval process in favor of weaker sectors and weaker borrowers.

g. Crop Credit Overhangs

Short-term (less than 1-year) crop credit benefitted from special treatment - it was not subject to discount ceilings and was heavily discounted through the Central Bank. Crop credit was approved based on projected support prices which were generally pegged at higher than world market prices, resulting in shortfalls in debt repayment. After one year, the unrepaid portions were reclassified as "ordinary" credit subject to ceiling limitations. Thus these loans contributed to increase the share of bad debts and reduce the share of good loans in the discount portfolio. Of the CFAF 216 billion in bad debts outstanding as of 30 September 1988, CFAF 46 billion were in crop credit overhangs.

h. Ingrained Behavioral Patterns

Repayment schedules were not adhered to in a scrupulous manner. On the contrary, repaying loans to the formal banking system was often viewed as a sign of weakness in the borrower, while the banks were not sufficiently aggressive in the collection of past-due debts.

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ANNEX 4

GUINEA CREDIT PROGRAMS FOR AGRICULTURE AND SMEs

(Section taken from a report by Stephen Silcox for Peace Corps/Guinea in December 1993.)

1. Programme Intégré pour le Développement de l'Entreprise (PRIDE)

This program was established by the Council for International Development, a PVO based in Washington, D.C. in 1991. Its aim is to promote the development of SMEs in secondary towns. The program provides both credit and training. It currently operates in three towns in Guinea - Mamou, Kankan and Boke - and is currently opening offices in Labe, Kissidougou and Kindia.

PRIDE has received financing from USAID of approximately $1 million per year. $600,000 of the total $5 million plus budget for the five year project was budgeted to capitalize the loan fund. PRIDE has a total of 51 employees - 33 professional and 18 support staff. These are supplemented by 9 Agent Trainees. Of these, 9 professionals (including two expatriates, one of whom was a former Peace Corps Volunteer) and 12 support staff serve in headquarters in Conakry. Within each branch office there are normally five professionals and 2 to 3 support staff. Four or Five Agents de Terrain serve in each branch office to screen applicants and follow-up on loan collections. A Chef de Bureau supervises all the operations of the branch office.

From the inception of program activities in July 1991 through November 1993, PRIDE has made 8390 loans for a total of FG1,062,600,000 (slightly over $1 million). Average loan size is about $200 and over two-thirds of the loans have gone to women, generally for commercial and artisan activities. The interest rate charged is the same as commercial banks - currently 36%. PRIDE states that the repayment rate is 100%.

PRIDE also engages in three types of training. Two of the training programs are for loan clients and are taught in the local language. Formation de Base is obligatory for all loan clients prior to loan approval and consists of sessions of two hours/day for four or five days. A test is given at the end of the course and must be passed in order to receive the loan. Formation Continue is provided for loan clients on a semi-voluntary basis and consists of one session each month for two hours. The topics taught are based on the desires of the clients. Examples of topics include basic bookkeeping, marketing, separation of business and family finances, respecting appointments, etc.

A second training program held for potential entrepreneurs is taught in French and deals with the "spirit of entrepreneurship."

This is a two week course based on a program developed by Management Systems International in Washington, D.C. and attempts to instil entrepreneurial attitudes in the trainees. A full-time, two week course is held for approximately 30 pre-screened trainees, most of whom pay the FG200,000 ($200) on their own. Some scholarships are available for special cases.

2. Crédit Rural

Crédit Rural was established in 1989 by the Ministry of Agriculture and Animal Resources (MARA) after the Banking Reform Act of 1985 disbanded the National Bank for Agricultural Development (BNDA), and was based on a study financed by the European Community. Since its creation, it has received a total of 57.79 million French Francs from the CCCE, BND Guinée, and the FED, as well as 1654 Ecu from the FED, and FG650 million from USAID.

Crédit Rural has adopted an approach to much of its lending based upon the Grameen Bank model. Its Solidarity Group Credit program lends to individuals who belong to a group of five persons who guarantee repayment of loans to other members in the group. Group members cannot be from the same family. Loan disbursements to individuals within a group are phased over a period of months to assure peer group pressure. The group decides the size of each member's loan, based upon their estimation of the member's needs for his or her business. Maximum loan size for each individual is FG150,000 ($150)

Crédit Rural intends to eventually cover the entire country in providing credit to rural areas. Whereas, PRIDE operates out of secondary towns, Crédit Rural serves villages. It currently operates 28 branches in all four regions of the country. Each branch has about 800 clients served by three agents and one director. The program includes a savings component. It costs about FG25 million to construct and establish a branch. Each branch is run as a profit center and incentives are given to employees to encourage profitability. The total number of employees is currently 154. All of the employees, except for the director, are on a contract basis. If the project closes, their contracts will automatically end. This also encourages employees to run the program on a profitable basis.

Although savings are not required to receive credit, potential loan recipients are encouraged to save. Since most of the rural areas served by Crédit Rural do not have commercial banks, many of the savings accounts they service are held by businesspersons. The minimum deposit is FG2500 as opposed to a minimum of FG500,00 for commercial banks. Since the rate of interest received on their accounts is competitive (19-20%) and deposits and withdrawals can be made at any branch within the country, rural businesspersons find these accounts very attractive. Crédit Rural had FG850 million in savings as of September 30, 1993.

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Crédit Rural has four financial products in two groups - Solidarity Group Credit and Agricultural Credit.

<u>Solidarity Group Credit</u> is provided all year long for any type of business activity with a maximum of one year duration with an interest rate of 3% per month on the declining balance. The average effective interest rate is about 24%. First year loans have a range from FG50,000 to 120,000; second year loans range from FG50,000 to 150,000; and third year and subsequent loans range from FG50,000 to 200,000. Repayments are made monthly with a late payment charge of FG1000.

<u>Agricultural Credit</u> is provided in three types of products:

> Rainy Season/Short-Term: Available from April to July for agricultural inputs for a maximum of 11 months at 3% per month interest. Loans are repaid in 3 or 4 payments, according to the region with a late payment charge of FG1000. First year loans have a range of FG30,000 to 60,000 and second year and subsequent loans from FG30,000 to 80,000.
>
> Dry Season/Short-Term: Available from October to December for agricultural inputs for a maximum of 7 to 9 months at 3% per month interest. Loans are repaid in 2 payments with a late payment charge of FG1000. Minimum and maximum loan amounts are the same as for rainy season loans.
>
> Medium-Term Loans: Available from May to July for equipment and transportation of agricultural products for a maximum of 2 to 4 years at 2.5% interest per month on the declining balance. Loans are repaid annually with a late payment charge of FG1000. The range of loans are from FG500,000 to FG5 million. Most of these loans are in the cotton growing region and go for plows and carts.

Crédit Rural contends that its repayment rate is 99%. Its main problem is delinquent payments during the season prior to harvest. It currently has 17,000 clients receiving credit.

3. <u>Crédit Mutuel</u>

Crédit Mutuel was established in Guinea in June 1988 with financing from the Caisse Française de Développement and Crédit Mutuel in France, the European Community and the World Bank. It has an annual budget of approximately 5.3 million French Francs. Its headquarters is based in Labe and it has regional offices in Labe, Kindia, Gueckedou and Kankan. It plans to open offices in Macenta and Mamou in the near future. Eventually, it plans to have offices in Siguiri, Fria, Boke, Dubreka and Forecariah as well. It has a total of about 100 employees including management.

Crédit Mutuel is based on the same principles as the savings and

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credit cooperatives found in other parts of the world (commonly known as credit unions in the U.S.). It's members are required to open savings accounts at their branches and credit is available for various purposes (not just for business activities) to members in good standing. Much of their credit is going for home construction purposes.

It currently has 60 savings and credit cooperatives in Guinea with a total of 40,000 members and with total savings of almost FG3 billion. Its current loan portfolio has over FG1 billion in loans outstanding. It pays 15% interest on its saving accounts and loans are repaid at an interest rate of 30%. Average loan size is FG800,000 ($825) with an average loan duration of 12-14 months and a maximum of 24 months.

Each person must pay FG1000 to become a member of Crédit Mutuel. A minimum deposit of FG5000 is required to open an account and subsequent deposits must be a minimum of FG5000. A member must wait one year after becoming a member in order to receive a loan. Members are eligible for loans of up to twice the value of their savings for loans up to FG1 million. For a loan of more than FG1 million, members must have 70% of the loan amount in savings. The savings serve as a guaranty for nonpayment of the loan. Each savings and credit cooperative can lend up to 50% of its total savings.

A visit to the Kankan regional office which opened in February 1993 revealed that it had 467 members with FG77 million in savings as of the end of November.

* Approximate exchange rate in December 1993 was U.S.$1 = FG 972

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ANNEX 5

TABLES

BANK ANALYSES, MACRO-ECONOMIC INDICATORS & SNR RECOVERY RATES

ANNEX 5 – TABLE 1: BICIS – BANQUE INTERNATIONALE POUR LE COMMERCE ET L'INDUSTRIE DU SENEGAL

FINANCIAL STATEMENTS FOR FISCAL YEARS ENDING SEPTEMBER 30TH

(IN MILLIONS CFAF)	1988 MM	%	1989 MM	%	1990 MM	%	1991 MM	%	1992 MM	%
CAISSE – BANQUE CENTRALE	22,636	28.0%	19,359	25.7%	18,126	20.2%	23,950	23.7%	23,211	21.4%
BANQUES & INST. FIN.	703	0.9%	799	1.1%	1,199	1.3%	3,852	3.8%	2,052	1.9%
GOUVERNEMENT	478	0.6%	484	0.6%	2,816	3.1%	6,965	6.9%	4,218	3.9%
EFFETS COMMERCIAUX	1,975	2.4%	2,557	3.4%	3,242	3.6%	3,260	3.2%	1,640	1.5%
CREDITS COURT–TERME	18,425	22.8%	18,180	24.1%	24,908	27.8%	24,829	24.6%	30,033	27.6%
CREDITS LONG–TERME	25,261	31.3%	23,189	30.7%	26,008	29.0%	26,226	26.0%	32,276	29.7%
TOTAL CREDITS	45,661	56.6%	43,926	58.2%	54,158	60.3%	54,315	53.9%	63,949	58.9%
AUTRES COMPTES	11,255	13.9%	10,886	14.4%	13,445	15.0%	11,770	11.7%	15,223	14.0%
TOTAL ACTIFS	80,733	100.0%	75,454	100.0%	89,744	100.0%	100,852	100.0%	108,653	100.0%
BANQUE CENTRALE	12,400	15.4%	8,848	11.7%	10,056	11.2%	8,768	8.7%	8,656	8.0%
BANQUES & INST. FIN.	6,140	7.6%	999	1.3%	1,651	1.8%	1,838	1.8%	4,515	4.2%
GOUVERNMENT	2,335	2.9%	3,783	5.0%	3,426	3.8%	9,907	9.8%	12,186	11.2%
COMPTES DISPONIBLES	21,904	27.1%	23,272	30.8%	23,470	26.2%	25,018	24.8%	24,987	23.0%
DEPOTS A TERME	14,342	17.8%	15,598	20.7%	22,781	25.4%	23,927	23.7%	25,026	23.0%
AUTRES	7,985	9.9%	9,768	12.9%	12,869	14.3%	17,527	17.4%	16,146	14.9%
TOTAL DEPOTS	44,231	54.8%	48,638	64.5%	59,120	65.9%	66,472	65.9%	66,159	60.9%
AUTRES COMPTES	11,542	14.3%	8,657	11.5%	10,441	11.6%	8,144	8.1%	11,176	10.3%
PROVISIONS POUR PERTES	175	0.2%	230	0.3%	294	0.3%	395	0.4%	1,009	0.9%
PROVISIONS & RESERVES	1,332	1.6%	1,441	1.9%	813	0.9%	1,068	1.1%	958	0.9%
CAPITAL	2,500	3.1%	2,500	3.3%	3,500	3.9%	3,500	3.5%	3,500	3.2%
RESULTAT DE L'EXERCICE	78	0.1%	358	0.5%	443	0.5%	760	0.8%	494	0.5%
TOTAL CAPITAL	4,085	5.1%	4,529	6.0%	5,050	5.6%	5,723	5.7%	5,961	5.5%
TOTAL PASSIFS	80,733	100.0%	75,454	100.0%	89,744	100.0%	100,852	100.0%	108,653	100.0%
HORS BILAN	27,545		29,589		29,251		30,165		31,001	
CREDITS GARANTIS	38,868		40,410		41,621		46,626		66,122	
RATIOS										
LIQUID ASSETS (1)	3.64%		9.29%		7.81%		14.13%		3.80%	
QUICK ASSETS TO DEP (2)	53.85%		42.44%		37.45%		52.30%		44.56%	
TIMES DEPOSITS TO CAP (3)	10.8		10.7		11.7		11.6		11.1	
LOANS TO DEPOSITS (4)	103.23%		90.31%		91.61%		81.71%		96.66%	
CAPITAL ADEQUACY (5)	5.06%		6.00%		5.63%		5.67%		5.49%	
RETURN ON ASSETS (6)	0.10%		0.47%		0.49%		0.75%		0.45%	
RETURN ON EQUITY (7)	1.91%		7.90%		8.77%		13.28%		8.29%	

NOTES:
(1): (ASSETS AT CENTRAL BK + FIN. INST. + GOVT) – (LIAB. AT CENTRAL BK + FIN. INST. + GOVT) / TOTAL ASSETS
(2): (ASSETS AT CENTRAL BK + FIN. INST. + GOVT) / TOTAL DEPOSITS
(3): TOTAL DEPOSITS / TOTAL CAPITAL (TIMES)
(4): TOTAL LOANS TO TOTAL DEPOSITS
(5): TOTAL CAPITAL / TOTAL ASSETS
(6): YEAR PROFITS / TOTAL ASSETS
(7): YEAR PROFITS / TOTAL CAPITAL

ANNEX 5 – TABLE 2: CBAO – COMPAGNIE BANCAIRE DE L'AFRIQUE OCCIDENTALE

FINANCIAL STATEMENTS FOR FISCAL YEARS ENDING SEPTEMBER 30TH

(IN MILLIONS CFAF)	1988 MM	%	1989 MM	%	1990 MM	%	1991 MM	%	1992 MM	%
CAISSE – BANQUE CENTRALE	236	0.3%	173	0.3%	158	0.3%	2,114	5.2%	11,203	16.7%
BANQUES & INST. FIN.	2,947	4.1%	901	1.4%	2,513	5.1%	2,845	7.0%	10,350	15.5%
GOUVERNEMENT	3,264	4.5%	747	1.1%	813	1.6%	909	2.2%	839	1.3%
EFFETS COMMERCIAUX	2,230	3.1%	2,299	3.5%	915	1.8%	1,245	3.0%	2,883	4.3%
CREDITS COURT–TERME	31,932	43.9%	13,905	21.4%	11,247	22.7%	6,572	16.1%	11,516	17.2%
CREDITS LONG–TERME	19,981	27.5%	33,141	51.0%	21,517	43.5%	21,087	51.6%	21,802	32.6%
TOTAL CREDITS	54,143	74.5%	49,345	75.9%	33,679	68.0%	28,904	70.8%	36,201	54.1%
AUTRES COMPTES	12,091	16.6%	13,837	21.3%	12,335	24.9%	6,077	14.9%	8,362	12.5%
TOTAL ACTIFS	72,681	100.0%	65,003	100.0%	49,498	100.0%	40,849	100.0%	66,955	100.0%
BANQUE CENTRALE	8,688	12.0%	7,945	12.2%	8,781	17.7%	3,908	9.6%	9,409	14.1%
BANQUES & INST. FIN.	13,628	18.8%	7,380	11.4%	225	0.5%	271	0.7%	6,683	10.0%
GOUVERNMENT	4,490	6.2%	2,975	4.6%	3,901	7.9%	2,582	6.3%	8,327	12.4%
COMPTES DISPONIBLES	10,068	13.9%	9,287	14.3%	4,385	8.9%	4,873	11.9%	6,664	10.0%
DEPOTS A TERME	11,379	15.7%	14,734	22.7%	7,683	15.5%	7,731	18.9%	9,767	14.6%
AUTRES	14,044	19.3%	14,743	22.7%	13,481	27.2%	15,971	39.1%	19,248	28.7%
TOTAL DEPOTS	35,491	48.8%	38,764	59.6%	25,549	51.6%	28,575	70.0%	35,679	53.3%
AUTRES COMPTES	10,373	14.3%	7,963	12.3%	8,261	16.7%	841	2.1%	1,558	2.3%
PROVISIONS POUR PERTES	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
PROVISIONS & RESERVES	303	0.4%	17	0.0%	580	1.2%	2,187	5.4%	2,628	3.9%
CAPITAL	1,136	1.6%	1,100	1.7%	2,200	4.4%	2,200	5.4%	2,200	3.3%
RESULTAT DE L'EXERCICE	(1,428)	−2.0%	(1,141)	−1.8%	1	0.0%	285	0.7%	471	0.7%
TOTAL CAPITAL	11	0.0%	(24)	0.0%	2,781	5.6%	4,672	11.4%	5,299	7.9%
TOTAL PASSIFS	72,681	100.0%	65,003	100.0%	49,498	100.0%	40,849	100.0%	66,955	100.0%
HORS BILAN	10,752		9,573		N/A		7,778		12,722	
CREDITS GARANTIS	2,252		2,719		N/A		3,275		2,729	

RATIOS

RATIOS	1988	1989	1990	1991	1992
LIQUID ASSETS (1)	−28.01%	−25.35%	−19.04%	−2.19%	−3.03%
QUICK ASSETS TO DEP (2)	18.17%	4.70%	13.64%	20.54%	62.76%
TIMES DEPOSITS TO CAP (3)	3,226.5	(1,615.2)	9.2	6.1	6.7
LOANS TO DEPOSITS (4)	152.55%	127.30%	131.82%	101.15%	101.46%
CAPITAL ADEQUACY (5)	0.02%	−0.04%	5.62%	11.44%	7.91%
RETURN ON ASSETS (6)	−1.96%	−1.76%	0.00%	0.70%	0.70%
RETURN ON EQUITY (7)	N/A	N/A	0.04%	6.10%	8.89%

NOTES:
(1): (ASSETS AT CENTRAL BK + FIN. INST. + GOVT) – (LIAB. AT CENTRAL BK + FIN. INST. + GOVT) / TOTAL ASSETS
(2): (ASSETS AT CENTRAL BK + FIN. INST. + GOVT) / TOTAL DEPOSITS
(3): TOTAL DEPOSITS / TOTAL CAPITAL (TIMES)
(4): TOTAL LOANS TO TOTAL DEPOSITS
(5): TOTAL CAPITAL / TOTAL ASSETS
(6): YEAR PROFITS / TOTAL ASSETS
(7): YEAR PROFITS / TOTAL CAPITAL

ANNEX 5 – TABLE 3: CLS – CREDIT LYONNAIS SENEGAL

FINANCIAL STATEMENTS FOR FISCAL YEARS ENDING SEPTEMBER 30TH

(IN MILLIONS CFAF)	1989 (*) MM	%	1990 MM	%	1991 MM	%	1992 MM	%
CAISSE – BANQUE CENTRALE	6,831	29.3%	20,670	46.1%	22,237	45.4%	31,443	49.3%
BANQUES & INST. FIN.	395	1.7%	756	1.7%	1,308	2.7%	1,109	1.7%
GOUVERNEMENT	208	0.9%	1,478	3.3%	3,495	7.1%	1,729	2.7%
EFFETS COMMERCIAUX	352	1.5%	2,063	4.6%	795	1.6%	840	1.3%
CREDITS COURT–TERME	6,969	29.9%	6,899	15.4%	8,062	16.5%	13,135	20.6%
CREDITS LONG–TERME	5,757	24.7%	7,593	16.9%	8,460	17.3%	10,462	16.4%
TOTAL CREDITS	13,078	56.0%	16,555	36.9%	17,317	35.4%	24,437	38.3%
AUTRES COMPTES	2,833	12.1%	5,414	12.1%	4,591	9.4%	5,030	7.9%
TOTAL ACTIFS	23,345	100.0%	44,873	100.0%	48,948	100.0%	63,748	100.0%
BANQUE CENTRALE	4,245	18.2%	2,308	5.1%	4,245	8.7%	4,245	6.7%
BANQUES & INST. FIN.	1,361	5.8%	614	1.4%	1,145	2.3%	3,869	6.1%
GOUVERNMENT	681	2.9%	2,185	4.9%	3,837	7.8%	9,011	14.1%
COMPTES DISPONIBLES	6,145	26.3%	13,310	29.7%	12,623	25.8%	14,437	22.6%
DEPOTS A TERME	5,064	21.7%	16,924	37.7%	15,753	32.2%	19,364	30.4%
AUTRES	2,249	9.6%	2,467	5.5%	3,529	7.2%	4,134	6.5%
TOTAL DEPOTS	13,458	57.6%	32,701	72.9%	31,905	65.2%	37,935	59.5%
AUTRES COMPTES	1,503	6.4%	4,187	9.3%	4,109	8.4%	3,968	6.2%
PROVISIONS POUR PERTES	0	0.0%	137	0.3%	196	0.4%	245	0.4%
PROVISIONS & RESERVES	0	0.0%	16	0.0%	653	1.3%	1,383	2.2%
CAPITAL	2,000	8.6%	2,000	4.5%	2,000	4.1%	2,000	3.1%
RESULTAT DE L'EXERCICE	97	0.4%	725	1.6%	858	1.8%	1,092	1.7%
TOTAL CAPITAL	2,097	9.0%	2,878	6.4%	3,707	7.6%	4,720	7.4%
TOTAL PASSIFS	23,345	100.0%	44,873	100.0%	48,948	100.0%	63,748	100.0%
HORS BILAN	7,453		13,895		14,417		13,958	
CREDITS GARANTIS	1,330		6,379		10,133		12,925	

RATIOS

	1989	1990	1991	1992
LIQUID ASSETS (1)	4.91%	39.66%	36.39%	26.91%
QUICK ASSETS TO DEP (2)	55.24%	70.04%	84.75%	90.37%
TIMES DEPOSITS TO CAP (3)	6.4	11.4	8.6	8.0
LOANS TO DEPOSITS (4)	97.18%	50.63%	54.28%	64.42%
CAPITAL ADEQUACY (5)	8.98%	6.41%	7.57%	7.40%
RETURN ON ASSETS (6)	0.42%	1.62%	1.75%	1.71%
RETURN ON EQUITY (7)	4.63%	25.19%	23.15%	23.14%

NOTES:
(*): BANQUE OPERATING SINCE JUNE 14, 1989
(1): (ASSETS AT CENTRAL BK + FIN. INST. + GOVT) – (LIAB. AT CENTRAL BK + FIN. INST. + GOVT) / TOTAL ASSETS
(2): (ASSETS AT CENTRAL BK + FIN. INST. + GOVT) / TOTAL DEPOSITS
(3): TOTAL DEPOSITS / TOTAL CAPITAL (TIMES)
(4): TOTAL LOANS TO TOTAL DEPOSITS
(5): TOTAL CAPITAL / TOTAL ASSETS
(6): YEAR PROFITS / TOTAL ASSETS
(7): YEAR PROFITS / TOTAL CAPITAL

ANNEX 5 – TABLE 4: SGBS – SOCIETE GENERALE DE BANQUES AU SENEGAL

FINANCIAL STATEMENTS FOR FISCAL YEARS ENDING SEPTEMBER 30TH

(IN MILLIONS CFAF)	1988 MM	%	1989 MM	%	1990 MM	%	1991 MM	%	1992 MM	%
CAISSE – BANQUE CENTRALE	3,234	3.4%	27,857	23.3%	26,565	22.1%	5,407	5.1%	8,349	7.7%
BANQUES & INST. FIN.	5,017	5.3%	1,611	1.3%	1,312	1.1%	1,066	1.0%	1,029	1.0%
GOUVERNEMENT	658	0.7%	1,543	1.3%	1,048	0.9%	8,026	7.6%	2,268	2.1%
EFFETS COMMERCIAUX	9,070	9.6%	7,309	6.1%	8,354	7.0%	7,931	7.5%	6,607	6.1%
CREDITS COURT–TERME	35,574	37.5%	36,852	30.8%	36,649	30.5%	29,607	28.1%	35,598	32.9%
CREDITS LONG–TERME	23,436	24.7%	23,964	20.0%	25,700	21.4%	33,602	31.8%	33,616	31.1%
TOTAL CREDITS	68,080	71.8%	68,125	57.0%	70,703	58.9%	71,140	67.4%	75,821	70.1%
AUTRES COMPTES	17,841	18.8%	20,486	17.1%	20,337	17.0%	19,872	18.8%	20,654	19.1%
TOTAL ACTIFS	94,830	100.0%	119,622	100.0%	119,965	100.0%	105,511	100.0%	108,121	100.0%
BANQUE CENTRALE	9,374	9.9%	8,073	6.7%	8,372	7.0%	8,393	8.0%	8,844	8.2%
BANQUES & INST. FIN.	10,267	10.8%	5,389	4.5%	5,558	4.6%	4,913	4.7%	6,798	6.3%
GOUVERNMENT	1,047	1.1%	25,347	21.2%	22,320	18.6%	6,237	5.9%	5,336	4.9%
COMPTES DISPONIBLES	25,019	26.4%	24,215	20.2%	22,879	19.1%	25,454	24.1%	22,389	20.7%
DEPOTS A TERME	20,590	21.7%	25,654	21.4%	24,552	20.5%	23,764	22.5%	27,646	25.6%
AUTRES	8,702	9.2%	10,874	9.1%	14,045	11.7%	16,444	15.6%	17,905	16.6%
TOTAL DEPOTS	54,311	57.3%	60,743	50.8%	61,476	51.2%	65,662	62.2%	67,940	62.8%
AUTRES COMPTES	14,097	14.9%	13,653	11.4%	15,092	12.6%	12,326	11.7%	11,553	10.7%
PROVISIONS POUR PERTES	0	0.0%	40	0.0%	136	0.1%	?	0.0%	?	0.0%
PROVISIONS & RESERVES	1,745	1.8%	1,774	1.5%	2,095	1.7%	2,367	2.2%	3,030	2.8%
CAPITAL	3,234	3.4%	3,773	3.2%	3,773	3.1%	4,312	4.1%	4,312	4.0%
RESULTAT DE L'EXERCICE	755	0.8%	830	0.7%	1,143	1.0%	1,301	1.2%	308	0.3%
TOTAL CAPITAL	5,734	6.0%	6,417	5.4%	7,147	6.0%	7,980	7.6%	7,650	7.1%
TOTAL PASSIFS	94,830	100.0%	119,622	100.0%	119,965	100.0%	105,511	100.0%	108,121	100.0%
HORS BILAN	18,398		22,908		22,802		22,128		23,115	
CREDITS GARANTIS	N/A		16,306		16,306		?		?	

RATIOS

	1988	1989	1990	1991	1992
LIQUID ASSETS (1)	−12.42%	−6.52%	−6.11%	−4.78%	−8.63%
QUICK ASSETS TO DEP (2)	16.40%	51.05%	47.05%	22.08%	17.14%
TIMES DEPOSITS TO CAP (3)	9.5	9.5	8.6	8.2	8.9
LOANS TO DEPOSITS (4)	125.35%	112.15%	115.01%	108.34%	111.60%
CAPITAL ADEQUACY (5)	6.05%	5.36%	5.96%	7.56%	7.08%
RETURN ON ASSETS (6)	0.80%	0.69%	0.95%	1.23%	0.28%
RETURN ON EQUITY (7)	13.17%	12.93%	15.99%	16.30%	4.03%

NOTES:
(1): (ASSETS AT CENTRAL BK + FIN. INST. + GOVT) – (LIAB. AT CENTRAL BK + FIN. INST. + GOVT) / TOTAL ASSETS
(2): (ASSETS AT CENTRAL BK + FIN. INST. + GOVT) / TOTAL DEPOSITS
(3): TOTAL DEPOSITS / TOTAL CAPITAL (TIMES)
(4): TOTAL LOANS TO TOTAL DEPOSITS
(5): TOTAL CAPITAL / TOTAL ASSETS
(6): YEAR PROFITS / TOTAL ASSETS
(7): YEAR PROFITS / TOTAL CAPITAL

ANNEX 5 – TABLE 5: CNCAS – CAISSE NATIONALE DE CREDIT AGRICOLE DU SENEGAL

FINANCIAL STATEMENTS FOR FISCAL YEARS ENDING SEPTEMBER 30TH

(IN MILLIONS CFAF)	1988 MM	%	1989 MM	%	1990 MM	%	1991 MM	%	1992 MM	%
CAISSE – BANQUE CENTRALE	334	2.1%	196	1.2%	374	1.0%	2,758	12.3%	302	0.8%
BANQUES & INST. FIN.	2,358	15.0%	2,012	12.2%	2,111	5.4%	1,034	4.6%	1,899	5.2%
GOUVERNEMENT	601	3.8%	1,486	9.0%	3,805	9.8%	4,408	19.7%	4,033	11.0%
EFFETS COMMERCIAUX	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
CREDITS COURT–TERME	10,703	68.0%	9,510	57.8%	19,296	49.6%	5,439	24.3%	10,055	27.4%
CREDITS LONG–TERME	250	1.6%	620	3.8%	1,584	4.1%	2,549	11.4%	3,320	9.1%
TOTAL CREDITS	10,953	69.5%	10,130	61.5%	20,880	53.7%	7,988	35.7%	13,375	36.5%
AUTRES COMPTES	1,503	9.5%	2,642	16.0%	11,735	30.2%	6,207	27.7%	17,074	46.5%
TOTAL ACTIFS	15,749	100.0%	16,466	100.0%	38,905	100.0%	22,395	100.0%	36,683	100.0%
BANQUE CENTRALE	8,799	55.9%	5,317	32.3%	12,310	31.6%	3	0.0%	4,255	11.6%
BANQUES & INST. FIN.	395	2.5%	1,249	7.6%	0	0.0%	0	0.0%	0	0.0%
GOUVERNMENT	0	0.0%	57	0.3%	6,460	16.6%	3,319	14.8%	3,015	8.2%
COMPTES DISPONIBLES	2,884	18.3%	4,917	29.9%	1,199	3.1%	2,200	9.8%	1,309	3.6%
DEPOTS A TERME	808	5.1%	1,558	9.5%	4,084	10.5%	5,208	23.3%	6,672	18.2%
AUTRES	4	0.0%	378	2.3%	1,918	4.9%	1,591	7.1%	2,126	5.8%
TOTAL DEPOTS	3,696	23.5%	6,853	41.6%	7,201	18.5%	8,999	40.2%	10,107	27.6%
AUTRES COMPTES	1,053	6.7%	1,063	6.5%	10,353	26.6%	7,634	34.1%	18,333	50.0%
PROVISIONS POUR PERTES	15	0.1%	102	0.6%	149	0.4%	14	0.1%	14	0.0%
PROVISIONS & RESERVES	75	0.5%	12	0.1%	127	0.3%	112	0.5%	192	0.5%
CAPITAL	2,300	14.6%	2,300	14.0%	2,300	5.9%	2,300	10.3%	2,300	6.3%
EXERCICE PRECEDENT	(584)	–3.7%	(584)	–3.5%	(487)	–1.3%				
RESULTAT DE L'EXERCICE	0	0.0%	97	0.6%	492	1.3%	14	0.1%	(1,533)	–4.2%
TOTAL CAPITAL	1,806	11.5%	1,927	11.7%	2,581	6.6%	2,440	10.9%	973	2.7%
TOTAL PASSIFS	15,749	100.0%	16,466	100.0%	38,905	100.0%	22,395	100.0%	36,683	100.0%
HORS BILAN	N/A		N/A		N/A		N/A		N/A	
CREDITS GARANTIS	N/A		N/A		N/A		N/A		N/A	

RATIOS

RATIOS	1988	1989	1990	1991	1992
LIQUID ASSETS (1)	–37.47%	–17.79%	–32.08%	21.78%	–2.82%
QUICK ASSETS TO DEP (2)	89.10%	53.90%	87.35%	91.12%	61.68%
TIMES DEPOSITS TO CAP (3)	2.0	3.6	2.8	3.7	10.4
LOANS TO DEPOSITS (4)	296.35%	147.82%	289.96%	88.77%	132.33%
CAPITAL ADEQUACY (5)	11.47%	11.70%	6.63%	10.90%	2.65%
RETURN ON ASSETS (6)	0.00%	0.59%	1.26%	0.06%	–4.18%
RETURN ON EQUITY (7)	0.00%	5.03%	19.06%	0.57%	–157.55%

NOTES:
(1): (ASSETS AT CENTRAL BK + FIN. INST. + GOVT) – (LIAB. AT CENTRAL BK + FIN. INST. + GOVT) / TOTAL ASSETS
(2): (ASSETS AT CENTRAL BK + FIN. INST. + GOVT) / TOTAL DEPOSITS
(3): TOTAL DEPOSITS / TOTAL CAPITAL (TIMES)
(4): TOTAL LOANS TO TOTAL DEPOSITS
(5): TOTAL CAPITAL / TOTAL ASSETS
(6): YEAR PROFITS / TOTAL ASSETS
(7): YEAR PROFITS / TOTAL CAPITAL

ANNEX 5 – TABLE 6: SOCIETE NATIONALE DE RECOUVREMENT

RECOVERY HISTORY

(IN MILLIONS CFAF)	CASH	OFFSET	FORECLOS	TOTAL	SUBTOTAL FOR YEAR	MONTHLY AVERAGE
JUN 91	207.3	55.7	0.0	263.0		
	345.8	1.7	0.0	347.5		
	393.6	12.4	0.0	406.0		
SEP	161.2	33.7	0.0	194.9		
	318.8	153.1	5.3	477.2		
	3,342.8	96.1	2,410.0	5,848.9		
DEC	679.6	36.9	0.0	716.5		
	5,449.1	389.6	2,415.3		8,254.0	1,179.1
JAN 92	289.4	39.2	13.0	341.6		
	224.6	24.7	0.0	249.3		
	262.4	562.7	0.0	825.1		
	188.0	142.7	2.4	333.1		
	329.6	46.5	0.0	376.1		
JUN	371.1	9.2	0.0	380.3		
	1,747.4	10.4	0.0	1,757.8		
	369.6	172.5	0.0	542.1		
SEP	205.3	1,649.2	0.0	1,854.5		
	213.2	370.6	9.5	593.3		
	217.1	16.9	0.9	234.9		
DEC	252.5	170.4	80.0	502.9		
	4,670.2	3,215.0	105.8		7,991.0	665.9
JAN 93	286.0	26.5	0.0	312.5		
	217.4	14.6	0.0	232.0		
	359.0	12.4	0.0	371.4		
	522.9	0.0	0.0	522.9		
	328.7	35.9	18.9	383.5		
JUN	225.4	0.0	0.0	225.4		
	403.5	0.0	0.0	403.5		
	268.8	0.0	26.5	295.3		
SEP	338.1	0.0	9.2	347.3		
	156.5	0.0	0.0	156.5		
	160.5	0.0	0.0	160.5		
DEC	199.3	0.0	0.0	199.3		
	3,466.1	89.4	54.6		3,610.1	300.8
TOTAL	13,585.4	3,694.0	2,575.7		19,855.1	

NOTE: above figures do not include the 12.7 billion CFAF recovered prior to the creation of SNR

ANNEX 5 – TABLE 7: COMBINED ALL BANKS
BALANCE SHEETS FOR FISCAL YEARS ENDING SEPTEMBER 30TH

(IN MILLIONS CFAF)	1988 MM	%	1989 MM	%	1990 MM	%	1991 MM	%	1992 MM	%	1993(**) MM	%
CAISSE-BANQ. CENT.	43,262	5.8%	66,639	8.9%	86,328	11.6%	67,506	10.0%	84,221	11.4%	88,305	11.8%
BANQ. & INST. FIN.	46,808	6.3%	46,359	6.2%	41,112	5.5%	34,534	5.1%	45,146	6.1%	41,928	5.6%
GOUVERNEMENT	28,035	3.7%	22,624	3.0%	22,546	3.0%	29,951	4.4%	21,593	2.9%	23,502	3.1%
COURT-TERME	265,395	35.5%	259,069	34.7%	236,059	31.6%	188,612	28.0%	190,837	25.9%	192,526	25.7%
MOYEN-TERME	66,230	8.9%	71,733	9.6%	49,835	6.7%	66,747	9.9%	72,589	9.9%	76,819	10.3%
LONG-TERME	82,209	11.0%	81,855	11.0%	84,252	11.3%	96,433	14.3%	98,495	13.4%	97,819	13.1%
DOUTEUX	24,926	3.3%	28,564	3.8%	45,133	6.0%	43,087	6.4%	49,884	6.8%	55,063	7.4%
TOTAL CREDITS	438,760	58.7%	441,221	59.1%	415,279	55.6%	394,879	58.6%	411,805	56.0%	422,227	56.5%
AUTRES COMPTES	190,890	25.5%	169,523	22.7%	181,268	24.3%	147,036	21.8%	173,106	23.5%	171,764	23.0%
TOTAL ACTIFS	747,755	100.0%	746,366	100.0%	746,533	100.0%	673,906	100.0%	735,871	100.0%	747,726	100.0%
BANQUE CENTRALE	194,374	26.0%	179,157	24.0%	190,923	25.6%	176,981	26.3%	186,708	25.4%	189,110	25.3%
BANQ. & INST. FIN.	102,252	13.7%	99,351	13.3%	87,270	11.7%	54,017	8.0%	74,505	10.1%	73,934	9.9%
GOUVERNMENT	30,446	4.1%	55,277	7.4%	62,578	8.4%	77,877	11.6%	95,993	13.0%	117,912	15.8%
DISPONIBLES	105,333	14.1%	110,092	14.8%	98,911	13.2%	102,717	15.2%	90,216	12.3%	88,768	11.9%
DEPOTS-TERME	86,499	11.6%	94,537	12.7%	104,072	13.9%	97,029	14.4%	105,969	14.4%	104,775	14.0%
AUTRES	49,226	6.6%	57,449	7.7%	60,603	8.1%	70,278	10.4%	76,197	10.4%	78,338	10.5%
TOTAL DEPOTS	241,058	32.2%	262,078	35.1%	263,586	35.3%	270,024	40.1%	272,382	37.0%	271,881	36.4%
AUTRES COMPTES	132,003	17.7%	119,680	16.0%	140,910	18.9%	112,320	16.7%	122,923	16.7%	118,442	15.8%
PROV. PERTES	N/A	0.0%	N/A	0.0%	N/A	0.0%	N/A	0.0%	N/A	0.0%	N/A	0.0%
PROV & RESERVES	24,203	3.2%	17,486	2.3%	11,943	1.6%	10,673	1.6%	13,317	1.8%	16,286	2.2%
CAPITAL	37,027	5.0%	46,683	6.3%	49,784	6.7%	51,535	7.6%	51,935	7.1%	52,435	7.0%
ACCUMUL. LOSSES	(13,608)	-1.8%	(33,346)	-4.5%	(60,461)	-8.1%	(79,521)	-11.8%	(81,892)	-11.1%	(92,274)	-12.3%
TOTAL CAPITAL	47,622	6.4%	30,823	4.1%	1,266	0.2%	(17,313)	-2.6%	(16,640)	-2.3%	(23,553)	-3.1%
TOTAL PASSIFS	747,755	100.0%	746,366	100.0%	746,533	100.0%	673,906	100.0%	735,871	100.0%	747,726	100.0%

RATIOS

	1988	1989	1990	1991	1992	1993(**)
LIQUID ASSETS (1)	-27.95%	-26.55%	-25.56%	-26.25%	-28.03%	-30.39%
QUICK ASS/DEP (2)	48.99%	51.75%	56.90%	48.88%	55.42%	56.54%
TIMES DEP/CAP (3)	5.1	8.5	208.2	(15.6)	(16.4)	(11.5)
LOANS/DEPOSITS (4)	182.01%	168.35%	157.55%	146.24%	151.19%	155.30%
CAP ADEQUACY (5)	6.37%	4.13%	0.17%	-2.57%	-2.26%	-3.15%

NOTES:

(*): ALL COMMERCIAL BANKS
(**): AS OF MARCH 31
(1): (ASSETS AT CENTRAL BK + FIN. INST. + GOVT) – (LIAB. AT CENTRAL BK + FIN. INST. + GOVT) / TOTAL ASSETS
(2): (ASSETS AT CENTRAL BK + FIN. INST. + GOVT) / TOTAL DEPOSITS
(3): TOTAL DEPOSITS / TOTAL CAPITAL (TIMES)
(4): TOTAL LOANS TO TOTAL DEPOSITS
(5): TOTAL CAPITAL / TOTAL ASSETS

The above figures are cumulative and include figures of the failed banks that have been closed;
therefore they are somewhat misleading and do not represent the present condition of the banking sector.

ANNEX 5 – TABLE 8: COMBINED ALL BANKS

INCOME STATEMENTS FOR FISCAL YEARS ENDING SEPT 30TH

(IN MILLIONS CFAF)	1988 MM	%	1989 MM	%	1990 MM	%	1991 MM	%	1992 NOT AVAILABLE
PRODUITS BANCAIRES	31,707	100.0%	37,381	100.0%	46,097	100.0%	42,921	100.0%	
CREDITS	22,752	71.8%	24,734	66.2%	29,242	63.4%	28,687	66.8%	
TRESORERIES	8,955	28.2%	12,647	33.8%	16,855	36.6%	14,234	33.2%	
FRAIS BANCAIRES	(12,328)	−38.9%	(14,850)	−39.7%	(19,217)	−41.7%	(16,316)	−38.0%	
DEPOTS	(7,582)	−23.9%	(10,316)	−27.6%	(14,119)	−30.6%	(14,051)	−32.7%	
TRESORERIES	(4,746)	−15.0%	(4,534)	−12.1%	(5,098)	−11.1%	(2,266)	−5.3%	
PRODUIT NETBANCAIRE	19,379	61.1%	22,531	60.3%	26,880	58.3%	26,605	62.0%	
FRAIS GENERAUX	(12,562)	−39.6%	(12,476)	−33.4%	(15,885)	−34.5%	(15,520)	−36.2%	
PERSONNEL	(7,329)	−23.1%	(7,150)	−19.1%	(8,814)	−19.1%	(8,919)	−20.8%	
AUTRES	(5,233)	−16.5%	(5,326)	−14.2%	(7,071)	−15.3%	(6,601)	−15.4%	
RESULTAT BRUT D'EXPLOIT	6,817	21.5%	10,055	26.9%	10,995	23.9%	11,085	25.8%	
AMORTISSEMENTS	(1,504)	−4.7%	(1,984)	−5.3%	(2,100)	−4.6%	(2,030)	−4.7%	
PROVISIONS	(4,179)	−13.2%	(5,987)	−16.0%	(19,402)	−42.1%	(11,469)	−26.7%	
RESULTAT D'EXPLOITATION	1,134	3.6%	2,084	5.6%	(10,507)	−22.8%	(2,414)	−5.6%	
AUTRES PRODUITS & CHARGES	135	0.4%	775	2.1%	16,115	35.0%	6,416	14.9%	
IMPOTS	(1,248)	−3.9%	(1,781)	−4.8%	(2,459)	−5.3%	(2,175)	−5.1%	
RESULTAT NET	21	0.1%	1,078	2.9%	3,149	6.8%	1,827	4.3%	

RATIOS

RATIOS	1988	1989	1990	1991
INT LOANS/INT DEPOSITS	3.0	2.4	2.1	2.0
SALARIES TO EXPENSES	58.3%	57.3%	55.5%	57.5%
RETURN ON ASSETS	0.003%	0.144%	0.422%	0.271%
RETURN ON EQUITY (*)	0.044%	3.497%	248.736%	N/A

(*): TOTAL EQUITY DECLINING TO NEGATIVE IN 1991

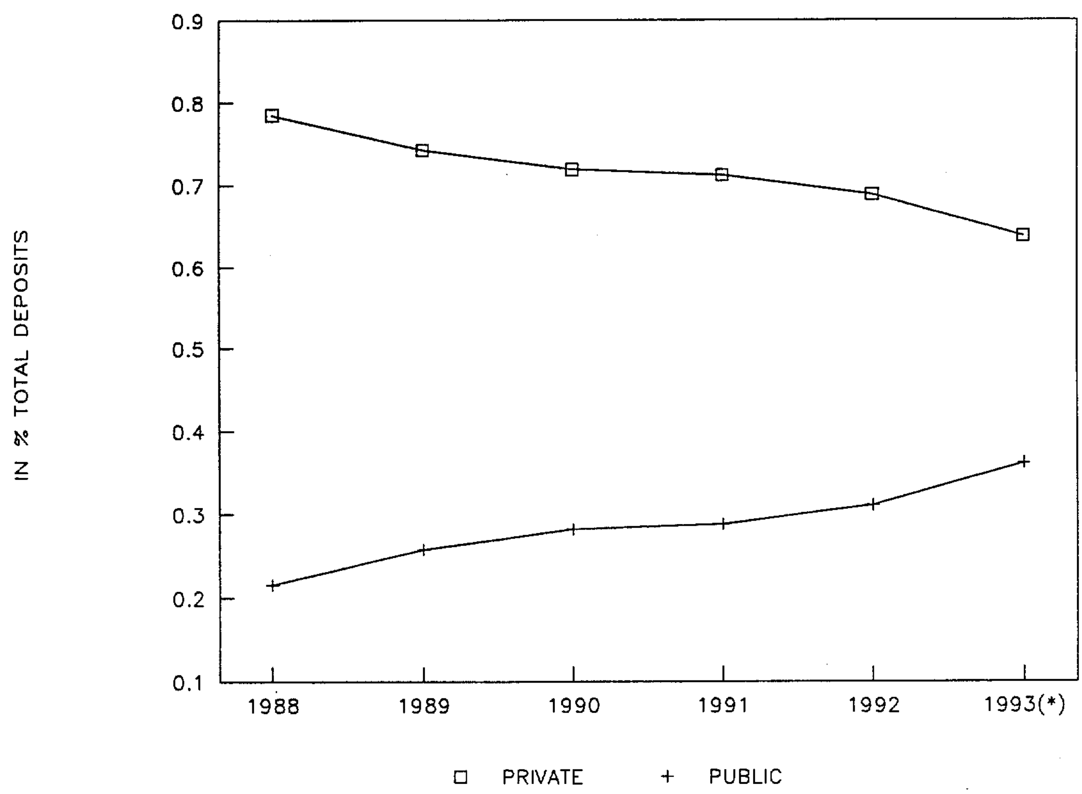
ANNEX 5 – TABLE 9: BANKING STATISTICS

(IN MILLIONS CFAF)	1988	1989	1990	1991	1992	1993(*)
TOTAL CREDITS	454,821	468,724	481,123	432,855	496,042	504,326
PRIVATE	279,937	299,353	311,371	282,874	331,432	336,819
GOVT & PARASTATAL	174,884	169,371	169,752	149,981	164,610	167,507
SHORT–TERM	302,217	319,826	334,106	289,783	337,802	338,603
PRIVATE	210,281	229,779	243,472	219,600	251,296	248,741
GOVT & PARASTATAL	91,936	90,047	90,634	70,183	86,506	89,862
MEDIUM–TERM	79,365	76,215	74,312	69,588	83,572	90,640
PRIVATE	64,668	65,116	63,593	58,021	73,699	81,226
GOVT & pARASTATAL	14,697	11,099	10,719	11,567	9,873	9,414
LONG–TERM	73,239	72,683	72,705	73,484	74,668	75,083
PRIVATE	4,988	4,458	4,306	5,253	6,437	6,852
GOVT & PARASTATAL	68,251	68,225	68,399	68,231	68,231	68,231
TOTAL CREDITS	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
PRIVATE	61.5%	63.9%	64.7%	65.4%	66.8%	66.8%
GOVT & PARASTATAL	38.5%	36.1%	35.3%	34.6%	33.2%	33.2%
SHORT–TERM	66.4%	68.2%	69.4%	66.9%	68.1%	67.1%
PRIVATE	46.2%	49.0%	50.6%	50.7%	50.7%	49.3%
GOVT & PARASTATAL	20.2%	19.2%	18.8%	16.2%	17.4%	17.8%
MEDIUM–TERM	17.4%	16.3%	15.4%	16.1%	16.8%	18.0%
PRIVATE	14.2%	13.9%	13.2%	13.4%	14.9%	16.1%
GOVT & PARASTATAL	3.2%	2.4%	2.2%	2.7%	2.0%	1.9%
LONG–TERM	16.1%	15.5%	15.1%	17.0%	15.1%	14.9%
PRIVATE	1.1%	1.0%	0.9%	1.2%	1.3%	1.4%
GOVT & PARASTATAL	15.0%	14.6%	14.2%	15.8%	13.8%	13.5%
TOTAL DEPOSITS	271,504	317,354	326,154	347,899	368,375	389,793
PRIVATE	213,083	235,484	234,411	247,730	253,855	248,682
GOVT & PARASTATAL	58,421	81,870	91,743	100,169	114,520	141,111
SHORT–TERM	111,289	118,694	106,703	115,717	105,376	106,227
PRIVATE	95,362	99,588	88,260	93,214	83,442	79,977
GOVT & PARASTATAL	15,927	19,106	18,443	22,503	21,934	26,250
LONG–TERM	160,215	198,660	219,451	232,182	262,999	283,566
PRIVATE	117,721	135,896	146,151	154,516	170,413	168,705
GOVT & PARASTATAL	42,494	62,764	73,300	77,666	92,586	114,861
TOTAL DEPOSITS	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
PRIVATE	78.5%	74.2%	71.9%	71.2%	68.9%	63.8%
GOVT & PARASTATAL	21.5%	25.8%	28.1%	28.8%	31.1%	36.2%
SHORT–TERM	41.0%	37.4%	32.7%	33.3%	28.6%	27.3%
PRIVATE	35.1%	31.4%	27.1%	26.8%	22.7%	20.5%
PARASTATAL	5.9%	6.0%	5.7%	6.5%	6.0%	6.7%
LONG–TERM	59.0%	62.6%	67.3%	66.7%	71.4%	72.7%
PRIVATE	43.4%	42.8%	44.8%	44.4%	46.3%	43.3%
GOVT & PARASTATAL	15.7%	19.8%	22.5%	22.3%	25.1%	29.5%

(*): AS OF 3–31–1993

GRAPH 9-A: DEPOSITS BY SECTOR

(*) 1993: AS OF 3-31



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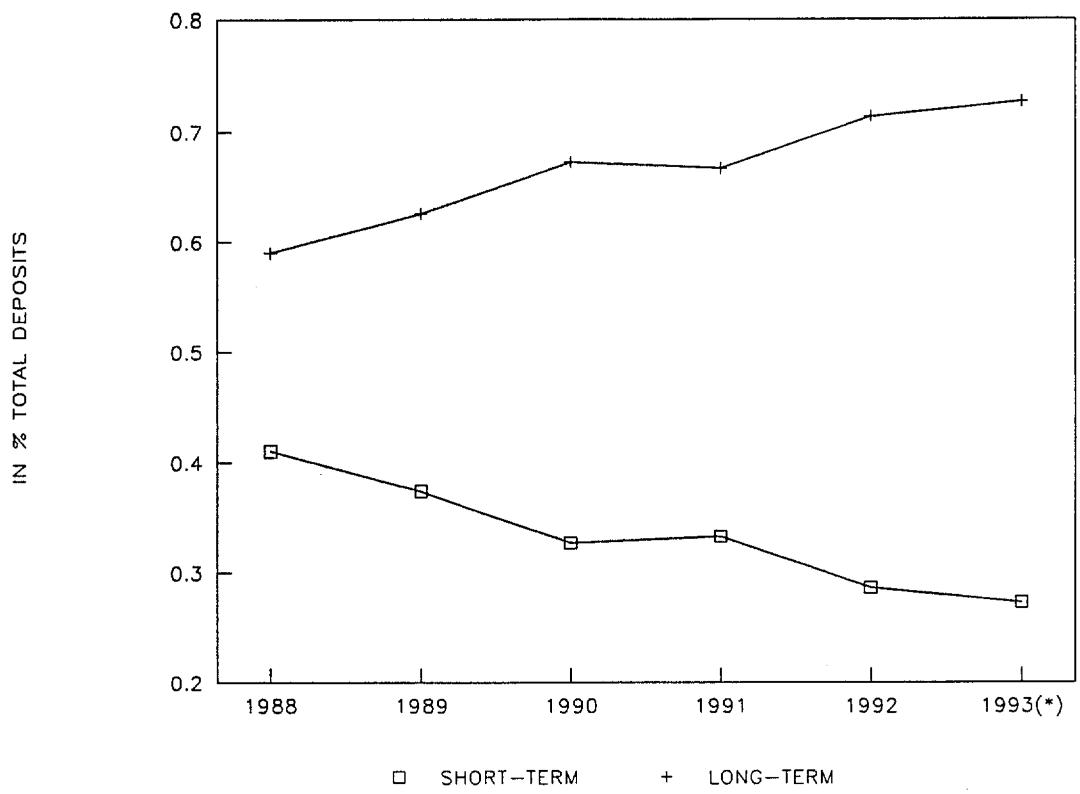
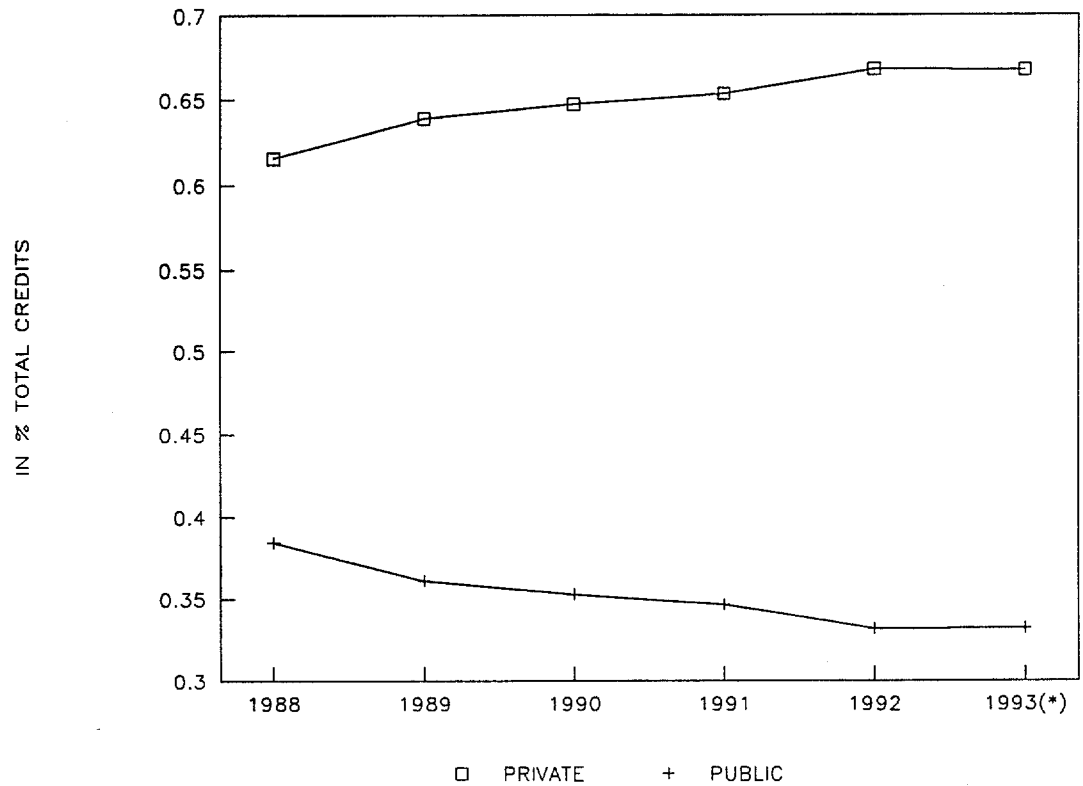
GRAPH 9-B: DEPOSITS BY TERM

(*) 1993: AS OF 3-31



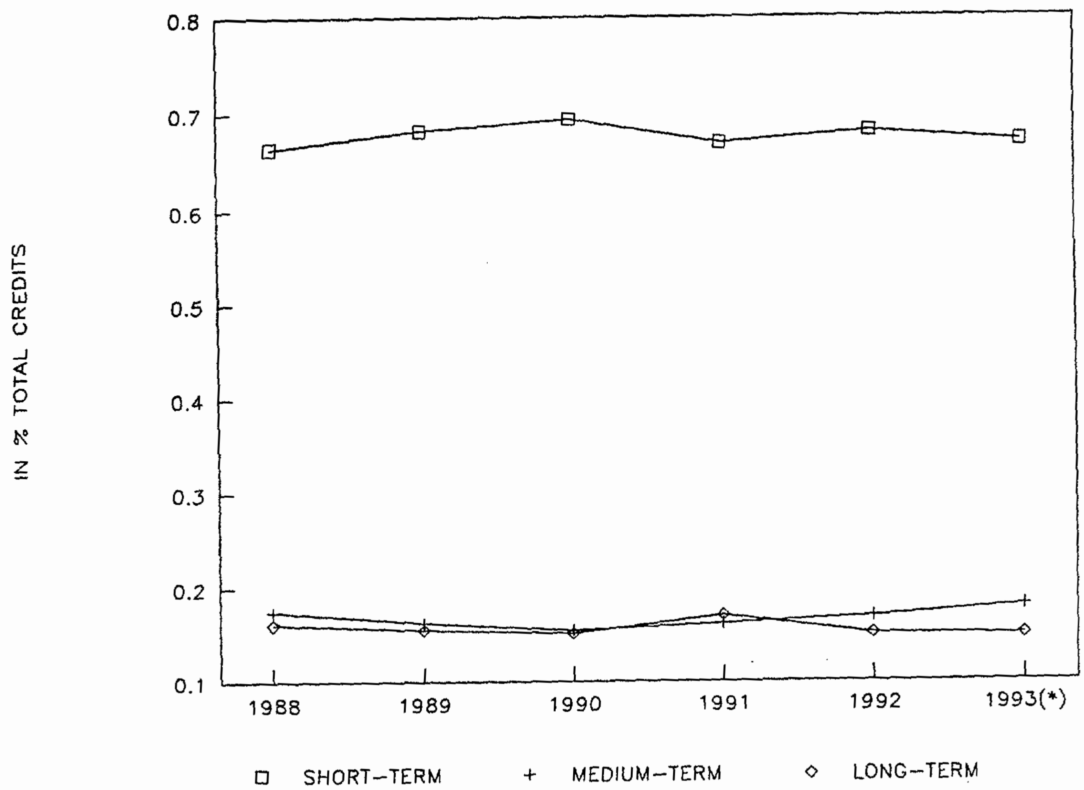
GRAPH 9-C: CREDITS BY SECTOR

(*) 1993: AS OF 3-31



GRAPH 9-D: CREDITS BY TERM

(*) 1993: AS OF 3-31



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ANNEX 5 – TABLE 10: ALLOCATION OF CREDITS (PRINCIPAL SECTORS)

(IN MILLIONS CFAF)	OCT 87					MAR 93					CHANGES IN TOTAL
	SHORT	MEDIUM	LONG	TOTAL	% IN TOTAL	SHORT	MEDIUM	LONG	TOTAL	% IN TOTAL	
AGRICULTURE	9,260	3,731	93	13,084	2.90%	19,317	5,660	27	25,004	4.96%	91.1%
AGRICULTURE	3,117	1,261	66	4,444	0.98%	10,581	2,008	0	12,589	2.50%	183.3%
FISHING	6,143	2,470	27	8,640	1.91%	8,736	3,652	27	12,415	2.46%	43.7%
MANUFACTURING	48,229	17,964	140	66,333	14.70%	53,551	15,179	1,567	70,297	13.94%	6.0%
FOOD PRODUCTS	17,849	7,893	48	25,790	5.71%	17,275	4,365	525	22,165	4.39%	−14.1%
TEXTILES	10,721	888	0	11,609	2.57%	9,951	1,226	505	11,682	2.32%	0.6%
WOOD PRODUCTS	2,693	1,060	0	3,753	0.83%	3,173	1,002	0	4,175	0.83%	11.2%
PAPER	1,273	710	0	1,983	0.44%	2,290	837	159	3,286	0.65%	65.7%
CHEMICALS	9,586	6,380	0	15,966	3.54%	13,597	6,550	300	20,447	4.05%	28.1%
MACHINERY	6,103	1,033	92	7,228	1.60%	7,184	1,013	78	8,275	1.64%	14.5%
METAL	4	0	0	4	0.00%	81	186	0	267	0.05%	6575.0%
COMMERCE	121,915	15,382	91,224	228,521	50.64%	138,646	19,665	70,150	228,461	45.30%	0.0%
WHOLESALE	88,831	5,790	90,146	184,767	40.94%	100,302	10,409	68,467	179,178	35.53%	−3.0%
RETAIL	28,018	2,712	44	30,774	6.82%	33,839	3,403	150	37,392	7.41%	21.5%
SERVICES	5,066	6,880	1,034	12,980	2.88%	4,505	5,853	1,533	11,891	2.36%	−8.4%
TRANSP. & COMMUN.	16,958	2,626	0	19,584	4.34%	22,598	7,758	10	30,366	6.02%	55.1%
TRANSPORTATIONS	16,883	2,626	0	19,509	4.32%	22,174	4,312	10	26,496	5.25%	35.8%
COMMUNICATIONS	75	0	0	75	0.02%	424	3,446	0	3,870	0.77%	5060.0%
FIN SERVICES	25,855	11,977	7	37,839	8.38%	31,577	10,060	0	41,637	8.26%	10.0%
FIN INSTITUTIONS	13,663	263	0	13,926	3.09%	15,368	23	0	15,391	3.05%	10.5%
INSURANCE	123	5	0	128	0.03%	491	5	0	496	0.10%	287.5%
REAL ESTATE	12,069	11,709	7	23,785	5.27%	15,718	10,032	0	25,750	5.11%	8.3%
SOCIAL SERVICES	26,247	19,609	1,478	47,334	10.49%	41,575	20,512	2,938	65,025	12.89%	37.4%
HEALTH	1,271	0	0	1,271	0.28%	1,251	0	0	1,251	0.25%	−1.6%
COMMUNITY	2,157	2,188	0	4,345	0.96%	3,172	1,845	1	5,018	0.99%	15.5%
CULTURAL	324	374	0	698	0.15%	626	379	0	1,005	0.20%	44.0%
FAMILIES	1,546	247	0	1,793	0.40%	2,184	430	0	2,614	0.52%	45.8%
NON-SPECIFIED	9,645	2,294	46	11,985	2.66%	19,223	3,370	449	23,042	4.57%	92.3%
INDIVIDUALS	11,304	14,506	1,432	27,242	6.04%	15,119	14,488	2,488	32,095	6.36%	17.8%
RECAP											
PRIVATE SECTOR	204,893	66,026	2,843	273,762	60.66%	248,741	81,226	6,852	336,819	66.79%	23.0%
PUBLIC SECTOR	72,515	14,712	90,297	177,524	39.34%	89,862	9,414	68,231	167,507	33.21%	−5.6%
TOTAL	277,408	80,738	93,140	451,286	100.00%	338,603	90,640	75,083	504,326	100.00%	11.8%
PRIVATE SECTOR	45.4%	14.6%	0.6%	60.7%		49.3%	16.1%	1.4%	66.8%		
PUBLIC SECTOR	16.1%	3.3%	20.0%	39.3%		17.8%	1.9%	13.5%	33.2%		
TOTAL	61.5%	17.9%	20.6%	100.0%		67.1%	18.0%	14.9%	100.0%		

ANNEX 5 – TABLE 11: MACRO–ECONOMIC INDICATORS: GDP

(IN BILLIONS CFAF)	1986	1987	1988	1989	1990	1991	1992	1993
GROSS DOMESTIC PRODUCT	1,303.5	1,382.4	1,483.4	1,476.4	1,552.6	1,591.0	1,661.5	1,691.9
NON–GOVT SOURCES (*)	1,168.0	1,237.3	1,335.8	1,322.9	1,398.7	1,435.8	1,506.0	1,534.5
PRIMARY SECTOR	290.7	299.5	333.0	285.9	308.4	303.0	322.1	310.6
SECONDARY SECTOR	227.7	246.9	273.2	277.2	290.4	301.4	310.0	318.3
TERTIARY SECTOR	627.8	667.7	705.7	735.0	774.4	805.1	846.8	877.7
GOVT SOURCES (**)	135.5	145.1	147.6	153.5	153.9	155.2	155.5	157.4
CONSUMPTION	1,220.5	1,312.4	1,389.1	1,381.9	1,426.5	1,464.8	1,537.0	1,565.3
PRIVATE CONSUMPTION	1,019.7	1,096.8	1,171.0	1,152.1	1,200.1	1,254.7	1,330.0	1,355.3
PUBLIC CONSUMPTION	200.8	215.6	218.1	229.8	226.4	210.1	207.0	210.0
INVESTMENTS	153.2	171.2	188.6	174.9	200.4	212.0	222.0	229.3
PRIVATE	104.8	113.9	130.6	133.3	137.0	146.5	155.2	161.8
PUBLIC	52.0	57.0	58.0	62.5	63.4	65.5	66.8	67.5
STOCKS	(3.6)	0.3	0.0	(20.9)	0.0	0.0	0.0	0.0
GDP % GROWTH	N/A	6.1%	7.3%	–0.5%	5.2%	2.5%	4.4%	1.8%
CONSUMPTION % GROWTH	N/A	7.5%	5.8%	–0.5%	3.2%	2.7%	4.9%	1.8%
INVESTMENTS % GROWTH	N/A	11.7%	10.2%	–7.3%	14.6%	5.8%	4.7%	3.3%
TOTAL GDP	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
% NON–GOVT SOURCES (*)	89.6%	89.5%	90.0%	89.6%	90.1%	90.2%	90.6%	90.7%
% PRIMARY	22.3%	21.7%	22.4%	19.4%	19.9%	19.0%	19.4%	18.4%
% SECONDARY	17.5%	17.9%	18.4%	18.8%	18.7%	18.9%	18.7%	18.8%
% TERTIARY	48.2%	48.3%	47.6%	49.8%	49.9%	50.6%	51.0%	51.9%
% GOVT SOURCES (**)	10.4%	10.5%	10.0%	10.4%	9.9%	9.8%	9.4%	9.3%
% TOTAL CONSUMPTION	93.6%	94.9%	93.6%	93.6%	91.9%	92.1%	92.5%	92.5%
% PRIVATE CONSUMPTION	78.2%	79.3%	78.9%	78.0%	77.3%	78.9%	80.0%	80.1%
% PUBLIC CONSUMPTION	15.4%	15.6%	14.7%	15.6%	14.6%	13.2%	12.5%	12.4%
% INVESTMENTS IN GDP	11.8%	12.4%	12.7%	11.8%	12.9%	13.3%	13.4%	13.6%
% PRIVATE INVESTMENTS	8.0%	8.2%	8.8%	9.0%	8.8%	9.2%	9.3%	9.6%
% PUBLIC INVESTMENTS	4.0%	4.1%	3.9%	4.2%	4.1%	4.1%	4.0%	4.0%
INVESTMENTS	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
% PRIVATE INVESTMENTS	68.4%	66.5%	69.2%	76.2%	68.4%	69.1%	69.9%	70.6%
% PUBLIC INVESTMENTS	33.9%	33.3%	30.8%	35.7%	31.6%	30.9%	30.1%	29.4%
% STOCKS	–2.3%	0.2%	0.0%	–11.9%	0.0%	0.0%	0.0%	0.0%

NOTE: FIGURES FOR 1988 THROUGH 1992 ARE ESTIMATES; 1993's ARE PROJECTIONS

(*): INCLUDING PUBLIC AND PARASTATAL ENTERPRISES
(**): ADMINISTRATION ONLY

ANNEX 5 – TABLE 12: MACRO-ECONOMIC INDICATORS: MONEY SUPPLY; BALANCE OF PAYMENTS; BUDGET

(IN BILLIONS CFAF)	1986	1987	1988	1989	1990	1991	1992	1993
GROSS DOMESTIC PRODUCT	1,303.5	1,382.4	1,483.4	1,476.4	1,552.6	1,591.0	1,661.5	1,691.9
M1: CURRENCY & DEMAND	183.7	190.7	203.4	211.8	207.0	203.1	191.9	208.0
SAVINGS & TIME DEPOSITS	105.4	116.3	127.1	139.9	154.9	154.8	171.9	170.4
M2: CURRENCY & ALL DEPOSITS	289.1	307.0	330.5	351.7	361.9	357.9	363.8	378.4
M1 % GROWTH	N/A	3.8%	6.7%	4.1%	−2.3%	−1.9%	−5.5%	8.4%
S & T % GRWTH	N/A	10.3%	9.3%	10.1%	10.7%	−0.1%	11.0%	−0.9%
M2 % GROWTH	N/A	6.2%	7.7%	6.4%	2.9%	−1.1%	1.6%	4.0%
M1 AS % OF GDP	14.1%	13.8%	13.7%	14.3%	13.3%	12.8%	11.5%	12.3%
S & T AS % OF GDP	8.1%	8.4%	8.6%	9.5%	10.0%	9.7%	10.3%	10.1%
M2 AS % OF GDP	22.2%	22.2%	22.3%	23.8%	23.3%	22.5%	21.9%	22.4%
TRADE BALANCE	(78.4)	(85.7)	(82.6)	(76.5)	(73.7)	(81.8)	(97.4)	(107.1)
SERVICES NET	(82.7)	(76.8)	(76.9)	(71.6)	(55.8)	(58.0)	(57.7)	(56.9)
TRANSFERS NET	68.5	70.5	83.0	84.9	80.2	82.8	83.8	79.3
CURRENT ACCOUNT DEFICIT	(92.6)	(92.0)	(76.5)	(63.2)	(49.3)	(57.0)	(71.3)	(84.7)
AS % OF GDP	−7.1%	−6.7%	−5.2%	−4.3%	−3.2%	−3.6%	−4.3%	−5.0%
CAPITAL ACCOUNT	64.4	72.1	11.5	36.1	22.2	15.3	27.4	23.3
EXCEPTIONAL FINANCING	15.8	26.1	33.9	55.7	42.3	48.4	41.0	6.5
ERRORS & OMISSIONS	5.3	(4.0)	(8.0)	1.6	2.6	(1.2)	8.3	0.0
BALANCE OF PAYMENTS	(7.2)	2.1	(39.2)	30.2	17.8	5.5	5.4	(54.9)
AS % OF GDP	−0.6%	0.2%	−2.6%	2.0%	1.1%	0.3%	0.3%	−3.2%
TAX REVENUES	185.1	196.0	205.5	196.2	216.8	254.6	264.1	
OTHER REVENUES	33.6	55.0	45.8	49.5	43.1	46.3	43.2	
GRANTS	19.2	15.1	20.0	28.5	19.6	18.8	20.2	
TOTAL REVENUES	237.9	266.1	271.3	274.2	279.5	319.7	327.5	
TOTAL EXPENDITURES	266.0	285.8	288.2	305.1	325.9	297.0	323.8	
BUDGET BALANCE	(28.1)	(19.7)	(16.9)	(30.9)	(46.4)	22.7	3.7	
AS % OF GDP	−2.2%	−1.4%	−1.1%	−2.1%	−3.0%	1.4%	0.2%	

NOTE: FIGURES FOR 1988 THROUGH 1992 ARE ESTIMATES; 1993's ARE PROJECTIONS

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ANNEX 6

REVISED PROGRAM LOGICAL FRAMEWORK

13

PROGRAM DESIGN SUMMARY

REVISED LOGICAL FRAMEWORK
(Only Section C.2, 3rd and 4th columns, and Section D., 2nd column, are revised)

Program Title & Number: Senegal: AEPRP-II Banking Sector Reform (685-0292/0299)

Life of Project:
From FY 1989 to FY1993
Total US Funding: $35 milli
Date Prepared: 08/21/89
Date Revised: 12/11/

Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
A. Program or Sector Goal: The broader objective to which this project contributes:	Measures of Goal Achievement:		Assumptions for achieving goal ta
-To promote a dynamic market economy by restoring financial stability and expanding the role of the private sector	-Growth rate of GDP -Balance of payments and budget deficits -Share of the private sector in GDP -Share of savings and investment in GDP -Share of private sector in national investment -Share of private sector in bank credit and bank deposits	-National Income Accounts, and IMF estimates -Balance of Payments Accounts, and IMF estimates -GOS Table of Financial Operations (TOF) -Central Bank reports	-Continued GOS performance under IMF Extended Structural Adjustme Program (ESAF) -Continued refinement and impleme tation of related reforms under New Agricultural Policy (NAP) an the New Industrial Policy (NIP) -Normal rainfall
B. Project purpose:	Conditions that will indicate purpose has been achieved. End of project status:		Assumptions for achieving purpose
-To provide critical financial and technical support to the GOS to assist with implementation of policy, regulatory, and institutional changes necessary to address the underlying problems of the banking sector	-Improved solvency of the banking sector -Improved liquidity of the banking sector -Improved profitability of the banking sector -Increased ratio of deposits and sound credit to GDP -Increased sectoral diversification of the banking system (measured in terms of sound credit) -Increased term diversification of bank credit (measured in terms of sound credit)	-Central Bank reports -National Income Accounts	-Bank management responds positiv to policy, regulatory, and insti tional changes, and to the new competitive environment -Depositors respond to above chan with renewed confidence in the banking system -Borrowers respond with more cred worthy loan requests and improve repayment rate
C. Outputs:	Magnitude of outputs:		Assumptions for achieving outputs
1. Improved Inspection and Supervision of Banks	-Interval between bank inspections reduced to 18 months or less -Creation of a regional Banking Control Commission with authority to impose sanctions	-Central Bank reports -Central Bank records	-Additional staff and related resources become available at BC headquarters to expand the quant and quality of bank inspection -MOEF requests inspections at lea every 18 months -WAMU Council of Ministers approv creation of regional Banking Co Commission
2. Privatization, Restructuring, and Improved Management of Banks	-Number of banks with GOS majority ownership reduced from 4 to 0 -GOS ownership in each individual bank reduced to 25% or less -Overall GOS ownership in banking system reduced from 25% to less than 12% -Changed management and reduced staff in at least 7 banks	-Bank annual reports -BCEAO records	-GOS refrains from intervening ir appointment and dismissal of ba management

PROGRAM DESIGN SUMMARY

REVISED LOGICAL FRAMEWORK
(Only Section C.2, 3rd and 4th columns, and Section D., 2nd column, are revised)

Program Title & Number: Senegal: AEPRP-II Banking Sector Reform (685-0292/0299)

Life of Project:
From FY 1989 to FY1993
Total US Funding: $35 million
Date Prepared: 08/21/89
Date Revised: 12/11/92

Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
C. Outputs:	Magnitude of outputs:		Assumptions for achieving outputs:
3. Accelerated Recovery of Bad Debt	-Creation of a data bank to facilitate recovery of bad debt	-Accounting firm records	-GOS refrains from intervening on behalf of prominent debtors
	-Creation of a bad debt recovery structure	-Operating license	
	-Creation of a panel of experts in the MOEF to analyze recovery of bad debt	-MOEF records	
	-Bad debt recoveries of: -- CFAF 4.0 b. by Dec. 89 -- CFAF 7.8 b. by June 90 -- CFAF 12.6 by Dec. 90 -- CFAF 16.6 by June 91 -- CFAF 19.2 b. by Dec. 91	-Reports of the committee of experts	
4. Increased Mobilization of Domestic Savings	-Double taxation of bank interest ended	-GOS legislation	-Stability in BCEAO top management
	-interest rate ceilings on deposits liberalized by BCEAO	-BCEAO circulars	
	-BCEAO becomes a lender of last resort by raising its rediscount rate above the money market rate, and by more conservative rediscounting policy	-BCEAO circulars, reports	
	-Improved public confidence in banks	-Ratio of deposits to GDP (BCEAO records; national accounts)	
5. Improved Allocation of Credit	-GOS terminates provision of its guarantee for public and private loans except with approval of the legislature	-GOS directives	-Continued political will
	-GOS renounces practice of imposing partici pation of banks in publically endorsed financings	GOS directives	
	-National Credit Committee abolishes its sectoral credit policy	-NCC directives	
	-National Credit Committee phases out its prior authorization requirement		
	-GOS implements its Action Plan to increase credit to agr. and SMEs through legal and financial innovations, e.g. mutual or cooperative credit societies or banks	-GOS legislation	
	-National Credit Committee and BCEAO phase out bank-by-bank credit ceilings and replace them with automatic mechanisms, e.g. fractional reserve requirements	-NCC and BCEAO directives -BCEAO reports	-Study demonstrates practicability of controlling money supply through reserve ratios in WAMU context

PROGRAM DESIGN SUMMARY

REVISED LOGICAL FRAMEWORK
(Only Section C.2, 3rd and 4th columns, and Section D., 2nd column, are revised)

Program Title & Number: Senegal: AEPRP-II Banking Sector Reform (685-0292/0299)

Life of Project:
From FY 1989 to FY1993
Total US Funding: $35 million
Date Prepared: 08/21/89
Date Revised: 12/11/93

Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
5. Improved Allocation of Credit (cont'd)	-BCEAO aligns the money market rate to international interest rates, and maintains its rediscount rate above the money market rate	-BCEAO directives	-Continued support of Council of Ministers of WAMU states for this measure
	-BCEAO eliminates the preferential discount rate, and widens legal margins on loans to agriculture, SMEs, and housing	-BCEAO directives	-Continued support of Council of Ministers of WAMU states for this measure
	-BCEAO includes non-performing loans guaranteed by Government in the overall government credit ceiling	-BCEAO directives -BCEAO reports	-Continued support of Council of Ministers of WAMU states for this measure
	-BCEAO includes crop credit in the overall national credit ceiling		
D. Inputs	Implementation target (type and quantity)		Assumptions for providing inputs:
-$32 million in program grants -GOS meets conditionality to accelerate repayment of GOS liabilities to the banking sector	-Program grants: --$12 million - Dec. 1989 -- $5 million - June 1990 -- $5 million - Dec. 1990 -- $5 million - June 1991 -- $5 million - Dec. 1991	-USAID disbursement records -GOS disbursement records -Bank accounting records	-Allotments arrive from AID/W in timely fashion
-$3 million of technical assistance for accelerated recovery of bad debt; improved bank management; program implementation, monitoring and evaluation	- Technical assistance: --Bad debt recovery structure: . 1 Deputy Director x 2 p.y. . 1 Director of Administration x 2 p.y. -Study on replacement of administrative bank-by-bank credit ceilings -Project Implementation, Monitoring and Evaluation: . 1 senior Financial Advisor x 2 p.y. . 2 Microcomputers, software and supplies . 1 Microcomputer Programmer and Trainer x 6 p.m. . 2 Consultants, End of Project Evaluation x 2 p.m.	-USAID contract records	

ANNEX 7

SCOPE OF WORK FOR THE EVALUATION

Scope of Work for

USAID/Senegal AEPRP II Evaluation

I. Activity to be evaluated

Program Title: AEPRP-II Banking Sector Reform Program

Program Number: 685-0292/0299

Authorization date: 12/14/1989

Date Program Agreement Signed: 01/19/1990

Life of Project Cost: $35,000,000

(AEPRP-II includes a studies and TA component (685-0299) of $3,000,000.)

AEPRP-II is USAID/Senegal's largest program. It provides budgetary resources to help re-establish a viable banking system in Senegal characterized by adequate levels of solvency, liquidity and profitability, by increased sectoral and term diversification of lending and by increased mobilization of domestic savings.

II. Objective of the IQC Delivery Order

To provide one banking and one private sector specialist to evaluate the quantitative and qualitative impact of the Banking Sector Reform program to-date. The person chosen as team leader will be required for an eight week period while the second team member will be required for only seven weeks.

The evaluation will assess the effectiveness of the AEPRP-II as an instrument for supporting the banking sector policy reforms undertaken in Senegal in conjunction with regional restructuring in the West African Monetary Union.

The results of this evaluation (findings, lessons learned, and recommendations) will be used by USAID, other donors, and GOS managers (1) to shape possible further interventions aimed at strengthening financial intermediation in Senegal; and (2) to design and implement more effective banking sector support programs in Africa and elsewhere in the future.

III. Background

A. Problem

It was clear by 1987 that the Senegalese banking system was in serious trouble, meeting neither the current needs of its existing customers, nor the development needs of the country.

By September 30, 1988, bad and non-performing loans of the banking sector as a whole exceeded some $700 million (CFAF 200 billion), equivalent to 45 percent of loans outstanding and 28 percent of total assets. Some eight banks (out of fifteen) had serious liquidity problems, encountering difficulty in honoring withdrawal requests, and in clearing checks through the Central Bank (BCEAO) money market.

To help resolve this crisis, the World Bank, the French, and USAID coordinated their efforts to help the GOS define the required reform program. The GOS published a Declaration of Banking Sector Policy in November 1989 setting the stage for financial support by the donors.

The AEPRP-II program provides a cash grant totalling $32 million to be disbursed in five tranches. The technical assistance component of $3 million focuses on improving the efficiency of bad loan recovery and on strengthening the capacity of the GOS to monitor banking sector developments.

The objectives of the AEPRP II program are the following:

- Improved inspection and supervision of banks;
- Privatization, restructuring and improved management of banks;
- Accelerated recovery of bad debts;
- Mobilization of domestic savings; and
- Improved allocation of credit.

B. Status of the AEPRP-II program

1. Amount and use of funds

As of May 31, 1993, a total of $27 million of the cash grant has been disbursed. A final tranche of $5 million is expected to be disbursed by the end of CY 1993. Dollar funds were disbursed based upon the fulfillment of the GOS of conditions precedent. Local currency has been used by the GOS to reimburse its liabilities owed to the banking system.

2. Conditionality

The AEPRP-II program contains 28 CPs tied to the five objectives mentioned above. To date, the GOS has fulfilled 26 conditions precedent.

3. Impact and beneficiaries

Based on available indicators of bank performance over the past three years of AEPRP-II program implementation, Senegal has made significant headway in terms of increased solvency and profitability of the banking system and improved bank supervision. The major responsibility for supervision now rests with a regional Banking Commission headquartered in Abidjan, Cote d'Ivoire. Bad loan recoveries have exceeded the target levels identified in the PAAD.

However, the AEPRP-II program also puts emphasis on financial deepening to allow a broad class of beneficiaries including entrepreneurs, employees and customers to benefit from increased savings, increased availability of credit, and from improved allocation of credit.

As required by AEPRP-II conditionality, the GOS formulated in late 1992 an Action Plan to expand the availability of credit to small and medium-scale enterprises and agriculture through the introduction of legal and financial innovations including mutual or cooperative credit entities. Implementation of this Action Plan is at a preliminary stage. Thus, for the time being, it may be premature to expect a comprehensive assessment of AEPRP-II's impact in terms of financial deepening.

4. Technical assistance

After some delays, two long-term banking professionals were hired to assist the bad debt recovery structure, SNR, to put in place procedures for more efficient recovery operations and speedy reimbursement of frozen accounts. The experts have been in place for close to one year. More serious delays have been incurred in implementing a computerized monitoring system in the Ministry of Finance to track progress of the reform and general banking sector performance. Unavailability of certain data from the Central Bank, frequent change of Ministry staff, and institutional change are among the relevant factors.

Short term technical assistance has included expertise to assess the possibility of locating a U.S. partner for a proposed new bank, a technical study of banking sector liquidity management, design and partial implementation of a computerized banking sector monitoring system, and periodic assessments of sector reform progress.

IV. Statement of work

This statement of work may incur minor revisions following discussions with the Ministry of Finance. Detailed discussions have not been possible prior to submission of the PIO/T due to ongoing reorganization of the Ministry. Revisions will not affect the substance of the work required.

A. Analysis

A comprehensive process and impact evaluation of the program is needed.

The Contractors will review and assess the effectiveness of conditions precedent, covenants, and technical assistance specified in the PAAD and Program Agreements as amended, on achieving the objectives of the program defined in Section III A above. Key elements to be addressed include: program design; program management; conditionality; use of funds; the program's economic impact; and the impact on actual and intended beneficiaries. The program's logical framework will serve as a frame of reference for the analysis.

Questions to be addressed include but are not limited to:

1. Are the assumptions underlying the program valid and the program inputs (conditions precedent, covenants, and technical assistance) appropriate and sufficient?

2. Are the expected outputs realistic given the existing socio-economic context of Senegal?

3. To what extent does the program succeed in meeting the objectives (EOPS) defined in the program logical framework? What are the principal successes and shortcomings?

4. Has the program reached the intended beneficiaries identified in the PAAD, and if not, why not?

5. Does the program effectively take gender considerations into account?

6. What is the impact on the banking sector, in quantitative and qualitative terms? What is the reaction of banks to the program?

7. Has the program resulted in improving access to credit for small and medium enterprises and agriculture?

8. How well does the program respond to GOS needs/concerns?

9. What key factors may not have been taken into account in program design?

10. What are the prospects for sustainability of the reform over time? What conditions must be met to ensure sustainaibility?

11. What are the lessons learned from the program, for both the GOS and A.I.D.?

12. What recommendations can be drawn from the AEPRP II experience for other A.I.D. interventions in banking sector reform?

B. Methods and Procedures

The Contractors will:

1. Familiarize themselves thoroughly with USAID's Banking Sector Reform Program, including the multidonor context in which it was implemented.

a). Documentation to be reviewed prior to departure from the U.S. includes the Program Assistance Approval Document (PAAD) and Program Amendments, the Government of Senegal Declaration of Banking Policy, the World Bank's President's Report on the Senegal Banking Sector Program and Supervision Mission reports, and various AFR/SWA file documents that will permit the contractors to become familiar with the economic and financial situation of Senegal.

b). Meetings for orientation purposes in AID/W should include Country Desk Officer Jon Breslar and POL/CDIE evaluation staff.

c). Meetings with AID/W and World Bank Officials and consultants with first-hand knowledge of the program should include the following:

--AID/W: *POL/PAR Program Officer, Richard J. Greene, former USAID/Senegal Program Officer and Economist.
*POL/OD, Lawrence Saiers, former Deputy Assistant Administrator for the Africa Bureau when the program was approved.
*EUR/RME, Laurie Landy, banking specialist.

--World Bank:
* Jean-Francois Bauer, former Chief of Industry and Finance Division for West Africa (Senegal).
* Brian Ngo, EDI official, former Bank Economist in Dakar.
* Moustafa Rouis, former Bank Economist for Senegal
* Hung Nguyen, former Bank Economist in charge of the Banking Sector Program.

--Consultants:

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* Philip Berlin, former Bank economist for Senegal and author of background study on required reserves for USAID.
* Eric Nelson, DAI, consultant to the AEPRP-II project for monitoring and evaluation.

It may also be appropriate to interview IMF officials familiar with the general thrust of the regional banking reform effort in the West African Monetary Union.

d). Review program and technical assistance files in USAID/Senegal.

2. Meet with GOS and Central Bank officials familiar with the conception and implementation of the banking sector reform program in general and the AEPRP-II activity in particular, including:

a). Treasury and Central Bank officials responsible for ensuring the transfer of cash grant funds and for providing suitable evidence for reimbursement of GOS debts;

b). The Director General and selected members of the Board of Directors of the bad debt recovery structure (SNR), as well as the long term technical experts;

c). Ministry of Finance and Central Bank officials in charge of developing mechanisms for financial sector deepening;

d). Ministry of Finance officials involved in monitoring the banking sector.

3. Interview local commercial bank officials, private businesses and their representatives, non-bank financial institutions, NGOs, and users of credit services, to elicit their perceptions of the changes brought about by the reform. Visits to sites outside of Dakar may be required.

4. Interview other donors as appropriate, including World Bank resident staff and officials of the Caisse Francaise de Developpement and the French Cooperation.

5. Review available data and secure additional data as possible to determine the progress made toward achieving the end of project status identified in the program logical framework.

6. Prepare an evaluation report not to exceed 40 pages including a Project Identification Data Sheet and an Executive Summary. The report will highlight the findings of the study, state major conclusions drawn from these findings, make recommendations, and identify the principal lessons learned. Appendices may be attached as required. The team leader will also

prepare the Abstract and Narrative sections of the A.I.D. Evaluation Summary form.

C. Timetable

1. First week in country:

--debrief USAID/Senegal officials on results of Washington meetings, begin review of USAID files, and have initial meetings with GOS officials.

2. Second week:

--continue file review and begin in-depth meetings with government, banking, and private sector representatives;

--before the end of the second week, provide the USAID control officer with three copies of a comprehensive outline of the proposed report in both English and French;

--meet with USAID and GOS officials to review the outline and modify it if indicated.

3. Third-Fourth weeks:

--continue in-depth meetings;

--conduct meetings with out-of-town beneficiaries as appropriate;

--hold a preliminary meeting with USAID and GOS officials to review findings to-date and receive comments;

--begin drafting report.

4. Fifth week:

--before the middle of the fifth week, provide USAID with five copies of the first draft of the evaluation report and five copies of an annotated outline in French, covering identical material.

5. Sixth week:

--meet with USAID and GOS officials to review the draft report and receive comments;

--revise report as required;

--submit final report before departure from Senegal, in five comprehensive copies in English and five summary copies in French.

--conduct an exit briefing for the GOS and one for USAID management.

6. Seventh week:

--the team leader will make any final changes required in the report, supervise revision of the summary translation, and prepare the Program Evaluation Summary.

V. Reports

The Contractors will submit four written reports to USAID and the GOS:

--a comprehensive outline of the proposed report in English and French (three copies each) before the end of the second week in country;

--a first draft of the evaluation report in English (five copies and five copies of an annotated outline in French covering identical material. The report will cover relevant background as well as evaluation findings, lessons learned, and recommendations. THis report will be submitted at the beginning of the fifth week.

--the final draft of the evaluation report, incorporating comments received from USAID and GOS officials, will be submitted in five comprehensive copies in English, including an executive summary, and five summary copies in French, before the end of the sixth week.

--the revised final report and Program Evaluation Summary will be provided to USAID before the departure of the team leader from Senegal.

Oral reports will be provided as specified in Section IV B above.

VI. Qualifications

The expertise required consists of one banking specialist, preferably with experience in banking/financial sector reform, and one private sector specialist with small and medium enterprise experience focused on access to credit. Both will have experience in lower income countries, preferably in Africa, and at least one will also have experience conducting evaluations including analysis of impact on beneficiaries. This latter person will be the team leader. Experience with A.I.D.'s policy reform programs would be helpful. French language capability at a minimum level of FSI S3/R3 is crucial. Several outlines and summary reports will need to be provided in French. USAID/Senegal will make the final decision on all personnel proposed.

VII. Relationships and Responsibilities

The Contractors will work under the technical direction of Ms.

Colette Cowey, Program Economist at USAID/Dakar, or her representative. The Program Office will act as liaison between the contractors and the Government of Senegal, the Central Bank, and the banking community. The Program Office will introduce the Contractors to relevant officials. A Program Office representative may accompany the Contractors to initial meetings with senior GOS and Central Bank officials. The Program Office will provide only limited assistance in making appointments and cannot offer technical support beyond desk space in the Mission. The Contractors will be largely responsible for developing their own contacts with the private sector and NGOs.

VIII. Performance Period

The evaluation will cover a time-period of eight weeks: one week preparation in the U.S., including two days of briefings at A.I.D. and the World Bank in Washington, D.C., and seven weeks in-country for the team leader (six weeks for the second team member). The in-country portion of the work should begin o/a October 20, 1993 and be completed before mid-December, 1993. A six-day work week in Senegal is authorized.

IX. Work Days Ordered

Team leader 47
Team member 41
(@ 5 days/week in Washington and 6 days/week in Senegal; total days including travel and Sundays are respectively 58 and 51 days.)

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ANNEX 8

ABSTRACT

(From the A.I.D. Evaluation Summary Form)

The purpose of the USAID program was "to provide critical financial and technical support to the GOS to assist with implementation of policy, regulatory, and institutional changes necessary to address the underlying problems of the banking sector."

The purpose of this evaluation was "to assess the effectiveness of the AEPRP-II as an instrument for supporting the banking sector policy reforms undertaken in Senegal in conjunction with regional restructuring in the West African Monetary Union." The methodology of the evaluation consisted primarily of interviews with key informants in Washington, DC and Senegal and a review of documents dealing with the design and implementation of the program.

The major findings and conclusions were:

The evaluation team concluded that the program was an overall success. All of the conditions precedent were met prior to the disbursement of the five tranches. The program achieved its purpose and most of its objectives relating to the restructuring of the banking sector and made considerable progress in regard to increasing access to credit for SMEs and agriculture, particularly in regard to the establishment of credit unions. Although there were some significant shortcomings and weaknesses, the program should be considered as having been a positive use of USAID funds.

Key lessons learned were:

- Effective donor coordination is critical to the success of major structural reforms of the economy. Donors should perceive their roles as being complementary to each other, with each donor focusing on a special aspect of the reform.
- Improvement of access to credit through private commercial banks, especially to sectors perceived as being highly risky, cannot be accomplished through a program to improve financial viability of banks.
- Exploring alternative mechanisms for financial intermediation outside the formal banking system is essential in improving access to credit to SMEs and agriculture.

ANNEX 9

SUMMARY

(From the A.I.D. Evaluation Summary Form)

Mission Initiating the Evaluation

This evaluation was initiated by USAID/Senegal as an end-of-project evaluation of the AEPRP-II Senegal Banking Sector Reform Program (Program No. 685-0292/0299).

Problem Statement

The Senegalese banking system in 1989 (and, with it, the Senegalese economy) was in danger of collapse. The banking sector as a whole was characterized by low liquidity and profitability, poor management, a portfolio of bad debts caused substantially by government interference in sound banking practices, poor banking supervision, and a lack of confidence by the general populace in all banks. It was clear that international assistance was needed to stabilize the banking sector and restore its health.

Program Strategy to Address the Problem

Based upon various studies and meetings with the international donor community, the Government of Senegal (GOS) adopted a comprehensive strategy in June 1989 to restructure the banking system. The international financial community, led by the World Bank, came to the aid of the Senegalese banking sector through the design of a coordinated program financed by the World Bank ($45 million), the French Caisse Centrale de Coopération Economique (now the Caisse Française de Développement - $34 million), and USAID ($35 million). The Central Bank matched the total provided by the three major donors with CFAF 150 billion to contribute to the restructuring of the sector. In addition, the Canadian International Development Agency agreed to provide technical assistance on the development of a credit union framework for Senegal.

The goal of the program was "to promote a dynamic market economy by restoring financial stability and expanding the role of the private sector." The purpose of the USAID program was "to provide critical financial and technical support to the GOS to assist with implementation of policy, regulatory, and institutional changes necessary to address the underlying problems of the banking sector."

Purpose of the Evaluation and Methodology Used

The purpose of this evaluation was "to assess the effectiveness of the AEPRP-II as an instrument for supporting the banking sector policy reforms undertaken in Senegal in conjunction with regional restructuring in the West African Monetary Union." This involved the determination of whether all conditions precedent were met prior to the disbursement of each tranche as well as assessing how the program was managed by USAID/Senegal. It also required an analysis of how successful the program was in meeting its purpose and objectives. Further, a number of questions relative to the impact of this program on its intended beneficiaries and other issues were addressed. These included an assessment of the effectiveness of the design of the program and its realism in dealing with the issues confronting USAID at the time the program was being planned.

The team conducting the study consisted of a banking specialist with experience in banking and financial sector reform and a private sector specialist with small and medium-scale enterprise experience focused on access to credit. They divided their work based upon the two principal aims of the program, i. e., to reform the Senegalese banking sector and to deepen and broaden access to credit, particularly in relation to small and medium-scale enterprises and for agricultural credit. The methodology of the evaluation consisted primarily of interviews with key informants in Washington, DC and Senegal and a review of documents dealing with the design and implementation of the program. Previous reviews and assessments both of the banking sector reform program and of related projects dealing with credit delivery were also analyzed.

Findings and Conclusions

The evaluation team concluded that the program was an overall success. All of the conditions precedent were met prior to the disbursement of each of the five tranches. The program achieved its purpose and most of its objectives relating to the restructuring of the banking sector; it also made considerable progress in regard to increasing access to credit for SMEs and agriculture, particularly in regard to the establishment of credit unions. Although there were some significant shortcomings and weaknesses, the program should be considered as having been a positive use of USAID funds.

The principal successes of the program were the following:

- The banking sector has been consolidated and the remaining private banks, for the most part, are solvent, more liquid, profitable and better managed.
- Banking supervision has improved through the creation of a regional banking control commission.
- Reserve requirements have replaced credit ceilings as a means of control of credit exposure by individual banks.
- Government ownership and interference in the banking sector has lessened significantly.
- The foundation for the establishment of a legal and

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institutional framework for credit unions has been laid. This was significant in that it has provided the basis for an appreciable increase in availability and access to credit for SMEs and agriculture in the future.
- Donor coordination was excellent and USAID's role in the program has been particularly effective.

The principal shortcomings of the program were the following:

- The reform of the banking sector does not appear to have had a major impact on the improvement of the general economy. In fact, the restructuring of the banking sector could not have been expected to improve the economy by itself. However, it is clear that without the restructuring of the banking sector, there would have been no possibility at all for an improvement of the economy. More efforts are required to adjust the structure of the economy in other areas if a general improvement is to be accomplished.
- The program has not resulted in a significant increase in sectoral or term diversification of credit from commercial banks. Likewise, access to credit for SMEs and agriculture has not been significantly increased from the formal banking sector. However, some critical assumptions made in program design regarding lending to this sector were flawed.
- Mobilization of private sector deposits has not succeeded due to capital flight as a result of an uncertain domestic economic environment.
- Although a considerable amount of the bad debts of the liquidated banks have been recovered and the conditions precedent were met, a substantial amount remains uncollected and prospects for recovery of the remaining debts are not good.
- The banking sector monitoring system to be used by the GOS was not implemented. However, the evaluation team believes that the concept of the monitoring system had some major design problems.

<u>**Recommendations**</u>

The evaluation team recommends that USAID/Senegal consider the following activities to follow-up the banking reform program.

- USAID/Senegal should consider funding other projects to develop alternative financial mechanisms to provide credit to microenterprises and for agricultural inputs.
- USAID/Senegal should consider supporting further training of managers in the private banking sector in Senegal.
- USAID should consider assisting local business associations and similar groups through technical assistance and institutional support to help them explore the feasibility of developing alternative credit sources for SMEs, such as venture capital funds.

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Lessons Learned for Other USAID Programs

- Program grants tied to conditions precedent can be very effective in changing government policies, if they are perceived to be in the government's interest.
- Effective donor coordination is critical to the success of major structural reforms of the economy. Donors should perceive their roles as being complementary to each other, with each donor focusing on a special aspect of the reform.
- Effective monitoring of the process of change by USAID and participation in day-to-day meetings and communication was extremely important in the restructuring of the banking sector. The use of five separate disbursements tied to specific conditions was particularly effective in this regard.
- Exploring alternative mechanisms for financial intermediation outside the formal banking system is essential in improving access to credit to SMEs and agriculture.
- Banking sector reforms and restructuring by itself cannot effectively change the structure of an economy. Attributing overall changes in the economy to banking sector improvements alone is very difficult, if not impossible.
- Improvement of access to credit through private commercial banks, especially to sectors perceived as being highly risky, cannot be accomplished through a program to improve financial viability of banks.

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