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PRIVATE INITIATIVES IN THE SENEGALESE ECONOMY

Potential Modes of AID Assistance

Consultant Report, Lucie Gallistel Colvin, PH.D., mission of June 9 - July 25, 1980. I wish to thank Ms. Carolyn Werley, summer intern from the Woodrow Wilson School at Princeton, who helped with the background research and interviews on which this report is based. Lists of persons and documents consulted are appended.

Among the more important themes emerging from the recent assessment of AID assistance undertaken by a joint committee of U S. and Senegalese government representatives was that a greater diversity of initiatives needs to be brought to bear on economic development in Senegal. Using a centralized administrative approach, and in the last six years working primarily through para-statal development cooperations, the Government has achieved some economic growth, but not commensurate with population growth. The modern sector of the economy has been unable to generate jobs as rapidly as young people are coming into the employment market. In this context the present report examines areas where AID might work with non-governmental initiatives, including the modern private sector, Senegalese voluntary organizations, the informal sector of the economy and rural communities, with a special focus on how the internal sector of the economy generates productive employment.

The slow growth in overall production has been drastically influenced by recurrent severe drought since 1963. But other aspects of stagnation seem to spring from deeper constraints. There has been a historical and continuing shortage of capital at all levels of the economy, from the peasant to the Government. Senegal also inherited, upon Independence in 1960, an unwieldy bureaucratic structure and approach to administration. The size of the bureaucracy was inordinately large as it has been created to administer all of Francophone West Africa, yet the seven hinterland countries were granted separate independence.

The approach to administration consisted of rules and regulations designed to prevent bureaucrats, and indeed all segments of the society, from engaging in corrupt practices - changing usurious interest, or taking excess profits. But in preventing wrong practices it also slows and frustrates positive initiatives. The Government has also been slow to punish incompetence or corruption when it does appear. Job tenure in Senegal, like the traditional patron/client relationship, is ideally for life, and is strongly influenced by kinship and friendship ties. In practice the checks in the system, multiple high level authorizations and tax exemptions, committee reviews, studies, contracts, bidding procedures, centralized accounting and paying procedures become the bane of every project. And when people do abuse the system, or simply fail to keep it functioning, there is a culturally sanctioned reluctance to penalize or replace them. Similarly, since civil servants and many para-statal employees are paid primarily according to their educational level, without regard to either their responsibilities or performance, diligence has to come from either inner motivation or authoritarian working conditions.

There is and has been a general recognition of the heaviness of the bureaucratic structure, particularly among the civil servants who work with it every day. Yet there is little awareness of the impact of extending it to ever greater areas of the economy, as has been done during the twenty years since independence. And the traditional recourse in cases of poor performance is to contractual fines or threats of personal penalties. Methods of management through incentives are not generally known or given credence. Per person productivity in the modern sector is thus not as high as it could be; it exceeds productivity in the traditional sector primarily because it involves greater use of capital, equipment, and tools.

The creation of jobs in the modern sector, whether by the state or by private corporations requires substantial capital as well as management effort. The following World Bank estimates of expenditures per job created allows one to compare costs in industry with those in irrigated agriculture (\$13,000 - 135,000 per job versus \$2,000 - 4,400 per plot).

Table 1: INVESTMENT COSTS PER JOB IN PROPOSED PROJECTS AND SOME INTERNATIONAL COMPARISONS (*)

<u>Statistical Concept and Branch of Activity</u>	<u>US \$ equivalent (**)</u>
A. investment cost per "job" created:	
1. Dakar Marine	73,000
2. Cayar complex (cancelled)	175,000
3. Kaolack integrated textile project	13,000
4. Senegal River Valley development	
Mechanized Approach	4,400
Labor-intensive approach	2,000
B. International estimates of ratio of value of physical capital to less qualified labor in selected manufacturing industries:	
5. Cotton, yarn and tissue	7,300
6. Textile, needle work & rope products n.e.s.	33,800
7. Knitted goods	9,400
8. Ready made clothing	6,600

(*) The Economic trends and Prospects of Senegal, 4 vols., (December 1979), IV, 76.

(**) rough estimates.

The informal or non-structured sector of the economy, operates in sharp contrast to this, largely outside the formal legal and administrative structures, as the modern descendant of the African private sector. It has the advantage of generating employment cheaply and without administrative intervention.

Calculations of the cost of job creation in rainfed agriculture and the informal urban or market-town economy are difficult to make, but one can estimate that they are less than one tenth the minimum cost in the formal sector. In rainfed agriculture they consist only of the provision of road access (by the government) if not already available, the clearing and attribution of rights in land (usually by villagers, increasingly by development corporations) and the provision of wells (usually by villagers). Jobs in petty trade are created through apprenticeship, or through the investment by a farmer of about \$200 of harvest income in commercial stock to be traded during the dry season. The partially enforced administrative requirement is that he signs the commercial register at the nearest court-house. Only in Dakar are regulations (identification requirements) used to exclude street traders from plying their wares. Jobs in skilled small crafts are created through apprenticeship, usually long (5-15 years) and unpaid or minimally paid (\$2 - 10/week). Before establishing himself as a journeyman, the craftsman must acquire \$50-500 worth of tools and equipment. A number of modern-sector government and PVO programs short-circuit this process, providing 6 months to two years training, market research, workshop sites, and credit at low interest with which a journeyman may get himself started. Although no calculations are available, donors to these programs universally report frustration with the high cost per job created. The enseignement moyen pratique program is now a vocational option in some public junior high schools. A 1974 study found that only 5% of petty producers interviewed had been trained in schools or organized training programs, while 70% were apprenticed and another 24% had learned their skill on the job in government or private employment (*).

Since independence in 1960 the total number of jobs in the formal sector (government and private) is estimated to have increased at a rate of 1.6% per year, far more slowly than the

(*) Chris Gerry, Petty Producers and the Urban Economy: A Case Study of Dakar, World Employment Program Research Working Paper. WEP 2-19/AS8 (Geneva, ILO, 1974).

urban labor force rate of 3.3% (X).

In 1977 there were an estimated 70,110 salaried positions and 99,612 daily or seasonal jobs - a total of 169,722 (**). This amounted to 10% of the labor force in Senegal (1977 1,707,300). The other 90% of the labor force are seasonally employed in agriculture, working in the informal sector (1972-227,000 jobs) and/or unemployed (***). The rate of unemployment and underemployment has been increasing, both because population growth exceeds employment generation, and because the desire to participate in the cash economy has become nearly universal since independence.

Interest in cash incomes has been spurred by the bleakness of present and future opportunities in rural areas, where the average peasant grows most of his own food plus peanuts, cotton, and other cash-earning activities with an estimated 88,000 CFA (\$374) annual average in 1975 (****). With no possibility of reasonable cash incomes in rural areas, young people increasingly leave for town.

Migration from rural to urban areas has shifted from a largely seasonal market-town affluence to an increasingly permanent and centralized flow towards the capital, Dakar. It affects the largest proportion of the population in the farthest out rural areas (Fleuve, Casamance, and Senegal Oriental) where opportunities for cash incomes are negligible. The resulting labor shortages there are only partially compensated by influxes of migrant workers from still more peripheral cash-poor provinces

(X) World Bank, Trends, IV, 56, 65.

(XX) Division des Ressources Humaines, Direction de la Planification, l'Emploi et les Salaires dans le Secteur Moderne (1977) found 55,234 salaried positions on employer tax roles. This has been inflated 27% in accordance with the margin of error found in an independent survey of employment conducted by SONED in 1974. (Les Activités Economiques du Secteur Moderne au Sénégal). Tax reporting of seasonal and daily employment appears to have jumped suddenly in the seventies (11,770 in 1971; 23,659 in 1974; 52,238 in 1977); which may mean the correction used here for the additional untaxed labor excessive (Division des Ressources Humaines).

(***) IBRD

(****) World Bank, Trends, IV, 4.

of neighboring Mauritania, Mali, Guinea and Guinea-Bissau. On the other hand, the greatest absolute numbers of urban migrants come from the already densely populated peanut basin. That area just inland from Dakar along the railroads, where cash cropping developed during the colonial period, is now experiencing soil exhaustion and localized overpopulation. In the period 1955 through 1976, Dakar received incoming adult migrants at rates of 9,000-40,000 per year, with a sharp rise in the mid-seventies after several years of severe drought (X). Less than 1,000 formal sector jobs were added each year.

Several recent studies have shown that informal sector incomes not only exceed rural incomes by several hundred percent; they also compete favorably with formal sector wages. Migrant incomes from such low paid jobs as water carrying, domestic service with lower middle income families, and street vending can range as little as 2,000 CFAF per month (an income exceeded by the average street beggar, who is estimated to take 5,000-40,000 CFAF per month). The following table of informal sector incomes among OHLM room renters gives an estimate of the range of incomes to which migrants can aspire:

(X) Lucie Gallistel Colvin et al, The Uprooted Of the Western Sahel: Migrants' Quest for Cash in the Senegambia (forthcoming: Praeger 1990), calculated from Table 4.2, p. 74.

Table 2: INCOMES PER MONTH IN SELECTED ACTIVITIES
A COMPARISON BETWEEN GRAND DAKAR, MEDINA AND PIKINE (*)

Activity	Grand Dakar		Medina		Pikine		Weighted Average income
	No.	Average income	No.	Average income	No.	Average income	
<u>Informal Sector:</u>							
Mobile trader	19	21,578	19	22,315	12	20,645	21,635
Laundry	0	-	6	19,250	3	20,000	19,433
Shopkeeper	1	25,000	2	25,000	11	27,727	27,143
Small trader	14	27,093	14	27,607	7	23,500	26,609
Jeweller	1	35,000	9	28,555	1	32,500	29,545
Teacher	1	15,000	1	20,000	4	19,500	18,833
Mason	1	27,000	1	40,000	1	20,000	29,000
Casual Labor	20	24,653	9	21,000	7	20,038	22,270
Woodworker	0	-	1	30,000	1	32,500	31,250
Religious Leader	6	26,250	6	28,333	3	19,500	25,733
Painter	2	25,000	0	-	2	22,500	23,750
Restautant owner	1	30,000	3	28,333	5	20,000	23,889
Tailor	14	22,642	28	25,660	11	25,181	24,774
Total	80	25,383	99	26,337	68	23,353	24,913
<u>Modern Sector:</u>							
Driver	22	31,697	5	30,932	3	32,067	31,606
Maid/house boy **	9	23,624	10	28,569	0	-	26,227
Watchman	5	26,186	5	25,609	2	22,500	25,338
Mason	2	26,588	5	26,600	0	-	26,596
Employee	3	30,904	3	24,963	2	23,000	26,032
Woodworker	7	36,408	2	28,423	0	-	34,633
Painter	8	30,594	1	21,000	2	18,000	27,432
Welder	2	39,825	2	34,058	1	30,000	35,553
Tailor	3	24,677	1	20,960	0	-	26,596
Total	61	30,056	39	26,790	10	25,113	28,890

(*) World Bank, Trends, IV, 32.

(**) Presumably registered with social security.

Given the low investment costs faster employment creation, and competitive incomes for workers in the non-structured sector, it makes sense for AID to collaborate with the COS in encouraging the development of productive employment in the informal economy.

The Structural relationship between the informal and formal sectors of the economy.

The modern economy of Senegal, comprising legally constituted firms, private and public, is complementary to the informal sector of petty producers, traders, transporters, and non-cooperative-member farmers in a significant way. But the modern sector has also been allowed to supplant major areas of informal-sector activity, in most cases offering less employment than the latter.

The modern and informal sectors are commercially inter-dependent. Both the supplies and the clients of petty traders, jewellers, carpenters, painters, masons, and even marabouts come from the formal sector as well as the informal. Many informal sector activities would not exist without the formal. Informal sector laundries, domestic servants, mechanics, construction workers, plumbers, welders, and miscellaneous repairmen all depend primarily on growth in the modern sector to generate new employment.

In contrast, the textile complex being developed at Kaolack, and the shoe factory long established at Rufisque actually and potentially destroy the livelihood of hundreds of indigenous weavers, mobile cloth traders, and cobblers. In the fishing industry individual pirogue catches have grown alongside industrial fishing, both rapidly increasing tonnages (1964: 99,000; 1976: 351,000) with pirogues' percentage of the total turning consistently around 80%. But they stayed competitive by monitorizing (63% in 1976: 33% in 1964), not by substantially increasing the number of boats involved (5,513 in 1964: 6,100 in 1976) (X).

The major sources of employment in the formal sector are manufacturing (18,000-26% of the total 70,110 salaried jobs) and commerce, hotels and restaurants (22%), followed by construction (12%), agriculture (10%), and transport/communications (9%). (XX).

(X) Le Senegal en chiffres, 1978 edition, 132 FF.

(XX) Division des Ressources Humaines: L'emploi et les salaires dans le secteur moderne, 1977 (October, 1978)

The major sources of self-employment are agriculture, livestock, and non-commercial fishing involving 65-70% of the total labor force (1977: 1,707,300). All of this employment is seasonal. It is complemented by both seasonal and permanent informal sector employment in which we have counts only of the number of workshops. A workshop typically consists of a master craftsman or shopkeeper, plus one to three journeymen, apprentices, and errand runners. By far the most common workshop is a tailor's (5,013 in 1972), followed by weavers (1,231), furniture and wood-workers (1,194), leatherworkers (1,019), jewellers (728), masons (548), general mechanics (475), barbers (330) and blacksmiths (351) (*). To these should be added the 6,100 fishing pirogues, 461 private transport vehicles (down from 1,502 in 1966), and an estimated 100,000 petty traders, of whom only 15,000 are registered (**).

Even with the greatest volume of trade monopolized by state firms, commerce is the major employer in market towns. A 1974 survey of the occupations of household heads in outlying market towns of Senegal found commerce everywhere second only to farming (15-25% traders vs. 30-50% farmers). Other major sources of employment were crafts (10-20%), fishing (0-15%), marabout (0-11%) and civil servant (4-13%). (***)

In agriculture it is still customary to count all peasants as self-employed. However examination of the legal structure, attribution of resources, and working conditions suggest that the majority should be considered employees of state or parastatal corporations. Producer and consumer prices for all major

(*) Direction de la Statistique. Enquête sur les exploitations artisanales (Dakar, 1976 (survey taken in 1972)).

(**) Ibid. Gives the figure of 15,000 traders, plus 158,000 unclassified informal sector jobs, 121,000 of which are in provincial capitals. Since commerce is the overwhelmingly predominant provincial informal sector activity, half of those 158,000 have been assumed to be traders. Transport figures are from Sénégal en chiffres, 1978, 1980.

(***) Direction de l'Urbanisme et de l'Habitat, Ministère des Travaux Publics, de l'Urbanisme et des Transports. Etude des Villes Secondaires du Sénégal, multi volume, including a general statistical volume and monographs on each city (1974).

agricultural commodities are fixed by the interministerial Comité des Grands Produits Agricoles, and peasants are allowed to sell only to the state agency. ONCAD handles most rainfed crops regional development agencies. SAED, SOMIVAC, SODEFITEX, handle rice, tomatoes, and other local produce in their regions of monopoly (*). These agencies, together with SODEVA, also have a monopoly on transportation of agricultural inputs and outputs, seed, fertilizer and agricultural equipment.

Land, the remaining resource which might entitle farmers to the status of the self-employed, has come under increasing state control with the gradual implementation of the 1964 Law on the National Domain. The law allowed the government to class land in one of three categories: zone d'habitation, zone de terroir, or zone pionnière. In areas in the first category, effectively confined to urban and/or intensively capital-improved land, owners of any national origin can have registered freehold title. This has become a very precious commodity. To the urban and semi-urban poor it is an irreplaceable source of security. To the more wealthy it is the basis of lucrative investment in a highly inflationary urban housing market, with returns on investment of 25-50%/year. Allocation of registered urban plots, in theory free to Senegalese citizens unless already owned, is blocked by bureaucratic red tape in areas of urban expansion all over the country. Only those with both connections and cash seem able to get clear titles.

The majority of rural lands, particularly in the more sparsely populated outlying provinces are classed as zones pionnières. Such lands are granted by charter to regional para-statal development agencies who then reallocate land use rights through administrative decisions. They have rarely dispossessed peasants living on the land, but peasants in those areas have lost all legal security of tenure, and in particular the right to inherit or transfer land. They continue to do so, according to traditional systems, so long as the para-statal does not intervene, but they can be dispossessed whenever a development project requires it. In the irrigation projects only the year to year use right is generally allocated, and a peasant or "producers' group" (groupement de producteurs-cooperative sub-unit) which fails to cooperate with the agency's rules is evicted

(*) A list of regulated products and the evolution of their prices is appended.

In the three regions of the peanut basin - Louga, Diourbel, and Sine-Saloum - most farmland is classed zone de terroir. In theory this means that land which has been cultivated two successive years becomes or remains the property of the cultivator. This reform was intended to allow land owning families to keep the land they were actually using, but let slave-origin and client labor gain land-use rights, free of traditional share-cropping obligations. In practice land-owning families tried to protect their traditional rights by devices such as seeding more land than they could work and converting share-cropping arrangements to wage labor. In established villages this brought low-origin farmers less security instead of more, although on the frontiers away from dense settlement, they were able to establish their own villages with relatively egalitarian land distribution.

The ultimate arbiters of land distribution in the traditional systems of the northern half of Senegal were the village chief and council of notables. Each village normally has a founding noble or Marabout family and a number of caste (slave-origin) client families. Larger villages might have a number of freeborn families. Marabout villages grew through the acquisition of disciples in addition to inherited client families. Among the Wolof, Tukulor, sedentary Pël, Soninke, some Serer and Mandinka, freeborn household heads all sat on the council, while each caste or others of low origin (slave, stranger, fishermen, herder) were allowed a representative. Serer, Diola and other Casamance communities were and are more egalitarian, with every household head sitting in council. But these villages have a particularistic tendency, resulting often in conflictual relations with their neighbors.

In the Conseils Ruraux established by the administrative reform of 1973 and recently given responsibility for land allocation, council members are elected, but village chiefs and all their relatives, as well as merchants, craftsmen and salaried workers are ineligible. Thus traditional lines of authority at the village level are negated by the new Conseils Ruraux system. This is generally, and at least initially, a weak council, dominated by the sous-prefet, who is a civil servant appointed by the Ministry of the Interior. This reform has only recently been extended to the Casamance, and was just promulgated in July 1980 for the Fleuve. It does not yet extend to Senegal Oriental. In areas where it is not yet in effect, traditional village chiefs and councils still hold power. In areas under the domaine of development agencies, the agency determines the constitution of local groups which they choose to recognize, as well as how land and water are allocated.

11

The overlapping village organizational picture is further complicated by the fact that government created cooperatives monopolize the major agricultural activities on a crop by crop basis.

Centres d' Expansion Rurale were originally created in 1962 to coordinate interventions and offer local extension services to each arrondissement. In practice, however, they have been poorly staffed, equipped, and the role of arbiter or coordinator has devolved on the sous-prefet.

Both the traditional and the new systems of land tenure guaranteed the use-right of land to anyone who wanted to farm. The main difference was that in the old system land could be inherited and subdivided within families. The new system allows only use rights, which revert to the state when land is freed. This has broken a fundamental link to the land of the peasant families, giving young people reduced incentive to stay. It has reduced the relatively mild inequalities in the old system, in which one owner rarely had more than one or two land poor client farmers, but has reinforced the new and much greater inequality between the educated and the unlettered population. The average salary in the modern sector is estimated at 7.4 times the average peasant income, self-employed informal sector incomes average 3.4:1, and in government service the ratio is 8.1:1. These indigenous inequalities are spurred on by increasingly disparate expatriate incomes. The ratio between expatriate and peasant incomes has been calculated to be 56:1 (X).

Government regulations and the legal structure of the industrial sector include price controls a relatively high minimum wage, heavy import levies, and hidden export taxes on all common law firms. The evolution of minimum wage levels is shown in Table 3.

Table 3: EVOLUTION OF THE SMIG (Minimum Wage)

	1970	1973	1974	1975	Jan. 1980
Lowest hourly rate (CFAF)	50.6	53.76	72.97	107.06	133.85
	(Adj. for price real SMIG at 1970 prices went from 50.6 (1970) to 55 CFAF (1980), but family size went up, ratio number of jobs/active population went down).				

(X) World Bank, Trends, IV, 4-5

But most modern firms do not actually pay the heavy import duties and taxes. The Code des Investissements, actually two laws - (one for firms over 200 million CFAF capital, and one with lesser privileges for firms with 5-200 million CFAF capital) allows individual firms to apply to the interministerial Comité des Investissements for exemptions and/or reductions of virtually all such charges. Firms approved for sites in the Free Trade Zone industrial park or the industrial domains being established in regional capitals have similar tax privileges. The two appended texts of the Code des Investissements, in listing the exclusions, give an indication of the unequal tax-burden left on unprivileged common law firms.

The informal productive sector is not quite so disadvantaged by this system as formally registered firms. Small producers profit from mobility, anonymity, and/or low-rent work sites to keep both their overhead and tax burden low. The Inspection des Impôts visits small boutiquaires and craftsmen to collect taxes on what the agency informally estimates to be their turnover. Fixed prices reduce the risks in small enterprises by smoothing out short-term fluctuations in prices of supplies, which small enterprises would otherwise have more difficulty weathering than large. Small enterprises can also escape penalties for occasional over-charging more easily than large. Prices are reexamined by the Direction de la Fixation des Prix every time they get out of line with market demand, so long term trends are little affected.

In many areas government neglect of the informal sector is the only factor which allows it to survive. Certainly most enterprises could not pay the mandated minimum wages and taxes. On the other hand they pay the full duty on imported supplies, which privileged firms can avoid.

Competition for markets between large industries and small producers is sometimes a problem, but not always. And there are practical steps which could be, but have not yet been taken, to help small producers survive through the transition to mass production. A recent SONED study found the most dynamic public and private industries in Senegal, between 1962 and 1974, to be mining (phosphates and quarries) chemical, and canning and freezing. Their value added increased by a factor of nine or more during that period. The next most dynamic, with value added increasing by a factor of 5-8 were textile weaving, and mechanical and electrical products. Weak growth, a factor of 5 or less, was shown in the oil refineries, wood and paper, and energy areas, while flour, sugar, other food products and garment industries were stagnant. (X) . Large firms predominate in the industrial

(X) Elements d'intégration industrielle (1977).

sector, with those having a turnover in excess of \$1.25 million doing 88% of the business and incurring 90% of the investments. Dakar and Cap Vert peninsula dominate geographically, with 88% of the firms and 80% of the jobs.

Of these large industries, only textile weaving and garment manufacturing are serious competitors of large informal sector areas of activity. And in garment manufacturing the informal sector seems to be winning the competitive battle. While quality control, style specialization, and the production of ready-made garments have spread through the small tailors shops, the modern-garment industry has stagnated. Informal sector weaving and dyeing have so far held their own, the latter by switching from local organic to German and Japanese commercial dyes which do not fade. On the other hand, the huge integrated textile complex planned for Kaolack could deal a severe blow to the thriving artisanal production and petty commerce of textiles in the central peanut basin. It is currently planned, for that very reason, to produce for export only but the firm is likely to have the bargaining power to remove that restriction.

Many modern industries have been indirectly helpful and some have been directly beneficial in that they encourage the development of new informal sector activities. Among the latter are the electrical and mechanical products branch, which has spurred the proliferation of small repair workshops. Another such area in which industrial development is planned is animal feed and leather tanning. Animal feed has been left largely untouched by the informal sector (the gathering and sale of peanut hay being the major exception), and local leather handicrafts are already supplanted by Bata plastic shoes in most cases. Industrial development of these branches should be an important element of economic aid to herders in the transition to more modern livestock methods. It is necessary, however, to study the economics of the herders more closely to see what charges they can afford for feed during the period of change. They currently have little access to petty cash, and would rarely consider selling an animal (trading down a major capital item) in order to feed the others.

Government intervention in the informal sector has more often been more to control than to encourage it. Historically, the clearest cases have been where government regulation has been used to grant outright monopolies, or other substantial privileges to state or para-statal or private firms. Examples include transportation, agricultural marketing, and some industries.

The monopolies with the greatest impact on low-income Senegalese, particularly those in rural areas and market towns have been those involving agricultural inputs and outputs. Ironically, this policy was undertaken due to the need for senegalization - a means of squeezing out middle level Lebanese traders and large French import-export firms. French firms senegalized their capital and participated in new monopoly ventures such as SONADIS, which was granted retail rural distribution rights to numerous common dry goods items. Lebanese were able to adjust, and adapted to cloth selling, bakeries, hardware, real estate and small industry. But the thousands of small Senegalese traders and seasonal farmer/traders found their possibilities substantially reduced, and formerly thriving market towns such as Kaolack, Tivaouane and Diourbel stagnated.

Now that the government is seriously discussing modifying the big monopolies, it would be appropriate to recognize the importance of petty trade and transport in providing employment and income in rural market towns. Government officials originally thought that only complete control could provide rural services and supplies reliably and at reasonable prices. But in practice the cost of the monopoly system has been great. Farmers between 1962 and 1974 received a smaller portion of the final selling price for their produce under the monopolies than under the exploitative colonial marketing system (*). And the services and supplies have still not proved reliable.

Two steps that would allow the small private sector to develop again are cash payment by local Conseils Ruraux and government agencies at as many points of transaction as possible, and local purchase of supplies. Other incentives, opportunities and potential modes of record-keeping for small businessmen with minimal literacy need to be studied closely. Government encouragement tends to have the same disadvantage for the formal sector as government repression - it imposes recurrent costs and a bureaucratic burden which makes the enterprise non viable.

Passenger transportation is another area in which private entrepreneurs have been repressed by the Government. Individually owned urban cars rapides and long distance Peugeot 404-504 taxis long provided more efficient lower cost transport than the

(*) Analysis of the operation of the Caisse de Péréquation et de Stabilisation des Prix by the Conseil Economique et Social.

1
15

government SOTRAC. Successive regulations since the early 1960s have prohibited the importation of new equipment and parts, introduced strict licensing, confined cars rapides to limited routes and assigned more favored ones to SOTRAC, and most recently, prohibited the importation of both cars rapides and Peugeot 504s, the latter for the announced purpose of reducing traffic fatalities.

Urban administrators and planners have often treated informal sector enterprises as undesirable, subjecting them to slum clearance (e.g. from Dakar, Plateau, Bopp Old Gueule Tapée and the totally eliminated quartiers of Becher, Alminko, Tiwawoon, Daruxan, Kip Kok, Bay Ley, Waxinan, Angle Mus, Mbod, Bay Gainde, Nimzat, Jamagen, Lamsar, and Jaksaw). When this happens, craftsmen and small entrepreneurs are forced to move, along with the poorest residents, out to the farthest fringes of the urban area. Once there, their transportation expenses are multiplied and they are obliged often to market their products through intermediaries. Their profit margin is inevitably cut, and many are simply forced out of business.

While some branches of the administration have worked directly against the informal sector, others have recognized its value and need for assistance. Unfortunately this has most often taken the form of limited training, credit, and extension programs rather than the application of national policies with a potential for wide impact. The major exception is a policy helping small traders to minimize risks - the national price-fixing program. Although minimal legal mark-ups (e.g. 5 CFAF/kg) keep profits very low, at least the system also prevents large traders from squeezing out smaller ones in price wars.

Another policy promulgated to encourage business is the recently announced preference by government of informal sector contracts for Senegalese small enterprises. This has so far had the opposite of the desired effect, since small contractors cannot afford the six to eighteen months delays in payment that government contracts frequently experience. A similar problem should be anticipated with any actions AID may undertake to help small firms, and provision should be made for immediate cash payment for supplies and services.

Policy and Practical Alternatives for Encouraging Local Initiatives

The Government is currently discussing dismantling ONCAD, giving its input provision and technical consultancy functions to SODEVA and giving farmers cooperatives responsibility for their own delivery of their crops to the peanut oil refineries. The Comité des Grands Produits Agricoles would continue to fix the purchase price, however, and farmers would continue to be obliged to sell

to a government monopoly. A reform that would allow much greater local trade to develop would be to make the government price a minimum instead of maximum, and allow farmers to market their produce in a supplementary open market.

Another major policy alternative with a potential for wide impact would be a concerted rural water supply campaign, with bored wells, water storage towers, plastic piping (which can be manufactured in single room workshops with the by-products of petroleum refining) and a system of regulated access.

Inadequate water supply is the single greatest problem in most rural areas. It is an obstacle to mixed farming, as there is rarely enough water in village wells with current technology to grow vegetables or water stock. It is an obstacle to environmental restoration, as reforestation and animal feed cultivation (to prevent overgrazing) lack dry season water supply in most areas. It is a contributor to the rural exodus, as the constant labor of fetching water, often over long distances in the dry season, is one of the most frequently cited hardships of rural life. Water projects figure in the budget of nearly every Conseil Rural yet they often have only enough money to build the current type of two meter diameter concrete block lined well. The agencies which are supposed to supervise construction are booked up six-months to two years in advance. And when numerous villages in the same area build new wells at the same time, the water table declines, leaving the wells to run dry.

Water rights, like those for farm and pasture land have traditionally been allocated on demand. This has been an egalitarian approach, and it worked as long as water was abundant and water use limited. However, with changing circumstances serious environmental degradation has set in, including the desertification of the pasture lands on the south bank of the Senegal River, the long-term deterioration of pastures and disappearance of major grasses from the Ferlo, the decline in yields and near total deforestation of the peanut basin, and the rapid settlement of former pasture lands in Eastern Senegal. Systems to regulate and monitor the use of these vital national and local resources need to be studied urgently. Ad hoc approaches tend to penalize herders and the poorest farmers, while paying little attention to the household economics of users.

Use rights need to be viewed in light of the incentives they provide for family solidarity and continuity on the land. For example, freehold tenure, with the right to sell land in poor rural areas, has historically tended to produce large land holdings, as peasants sell their only asset and leave for the city.

Yet the current Senegalese land law probably went too far in depriving peasants of all transfer rights including inheritance. This also sends many men to the city as they have little vested interest in their home community.

Similarly in grazing areas, the traditional liberality of pasture access is becoming untenable: the imposing of restrictions has already begun on an ad hoc basis. It is important that policies to do this specify means of limiting the number of animals having access to water holes and grazing land, not the people. Contracts such as AID's Bakel Livestock and the World Bank's neighboring Eastern Senegal projects, to freeze access to wells, must be based on the total number of animals. This may, but need not necessarily, have the effect of excluding foreign migrant herders. And in any case, it would be useless to exclude foreign herders if local members were allowed to increase their herds beyond range capacity.

Since every community is free to build its own water infrastructure, it may not be possible to develop a conservation program without undertaking an integrated national approach. Although this would be a major capital investment, it should be considered as comparable in its impact to the OMVS dam system. Also the cost of the program should be weighed against the cost of doing nothing while urban unemployment continues to grow and rural land-capacity to decline.

While the best resources one can assure for local initiatives are fertile land and water, it is also possible and desirable to grant rural individuals and institutions access to various types of modern equipment. For example, provision could be made on a fee basis for small users to have food lockers in an industrial cold-storage complex, telephone or radio contact with regional capitals or Dakar from isolated places in the interior, part of a freight load when an official truck is obliged to run empty, the use of a project bulldozer for a few hours to restore a village road after a rain. Preference is currently given to large users in the design, furnishing and administration of such equipment, which thus makes for poor integration of local development initiatives. The objection might be made that giving up centralized and large scale supervision opens the way for petty corruption. But history suggests that centralized control does not prevent corruption, it just centralizes it.

18

Further Study of Policy Alternatives

In each of the Ministries and agencies contacted, interest was expressed in studying the potential impact of possible policy changes that we had discussed. AID should encourage and facilitate such studies, and may even want to undertake them along with relevant ministries or agencies. The most important areas for immediate attention would be:

1) Study of the impact on producers, small traders and transporters, para-statal, and government revenues of using agricultural price subsidies instead of monopolies, and liberalizing marketing and transport.

The Comité des Grands Produits Agricoles or the Direction de la Fixation des Prix, Ministère du Commerce, or Regional Development Agencies or the Conseil Economique et Social could consider the following studies.

2) Study of alternative approaches to taxation, a) the creation of tax exemptions and fixing duty levels by commodity according to the utility of the product rather than the tax-exempt status of the firm. Impact on growth of commerce and industry, on port efficiency, on Government revenues by Ministry of Planning or Conseil Economique et Social. b) Local taxation and its relationship to local development.

3) Study of the actual and potential impact on informal sector employment of various branches and modes of large industrial development, seeking modes of harmonizing growth in both sectors. By Ministry of Industrializations and Crafts.

4) Survey of the budget priorities and local development plans drawn up by individual Conseils Ruraux in the last three years. If this information has already been brought up from the arrondissement level to higher offices in the Ministry of the Interior, it could be requested for AID's own information. It should be studied to get a geographically distributed view of priorities, from the bottom up. This is a new body of data of potentially great interest. If the Ministry of the Interior has not assembled it, they might be interested in so doing. Analysis could be commissioned directly by AID, working with one of the following Senegalese institutions with such capacity:

- ORGATEC, private Senegalese consulting firm, founded in 1963, Director Khalilou Sall. Current capital is \$110,000. Professional staff of 22, total staff 47.

- SONED, para-statal Senegalese consulting firm. Staff of 63 of which 50 are professional researchers. Director MBaye Thiaw.

- ENDA, UN-sponsored development research institute, doing research throughout Africa from base in Dakar. Director Jacques Bugnicourt.

- IDEP, Institut Africain pour le Développement Economique et la Planification, UN-sponsored training and research institute. Good library, currently under an interim director. Professional staff ca. 15.

- IFAN, Institut Fondamental d'Afrique Noire. Research Institute of the University of Dakar, hence under the Ministère de l'Enseignement Supérieur. Requests for research on a given theme can be submitted by government agencies. Director Amar Samb. Professional staff ca. 30.

- ORSTOM, French government-sponsored Office de la Recherche Scientifique et Technique Outre-Mer. Director M. Monnet.

Bureau d'Etudes Assane Diouf and Anderson et Gaye are two newer, private Senegalese consulting firms that were mentioned to us, but that we did not have time to contact.

5) Study of potential public or small user access to major equipment in rural areas. Related study of means by which AID projects and other large agencies could buy supplies, pay cash directly, and keep adequate but not burdensome records using the informal sector, particularly in outlying market towns. Could be undertaken by any of the above firms, possibly incorporated with some work which Syracuse University is supposed to do with other AID projects on user fees, and/or commissioned through SONEPI, the para-statal Société Nationale d'Etudes et de Promotion Industrielle.

SONEPI was established to provide marketing studies, management consultancy, credit (fonds de garantie), and training for small and medium sized firms. It will be closely involved in the planning and construction of the industrial zones currently being developed in Diourbel, Thiès, Ziguinchor, and Kaolack. The advantage of having SONEPI undertake such a study is that they would be in a position to apply the results in integrating informal sector firms into the industrial zones. A potential disadvantage is that the regulations under which the agency currently operates tend to turn informal sector firms into formal sector firms.

SONEPI works in tandem with SOFISEDIT, the Société Financière Sénégalaise pour le Développement de l'Industrie et du Tourisme, which acts as a clearing house for medium and long term loans to productive or touristic enterprises. The latter has a capital of

20

650 million CFAF (\$2,600,000), plus credit lines from external Banks (World Bank, \$3 million already allocated, \$4 million being negotiated; B.O.A.D. \$3.5 million; and 5 million DM from a West German Bank) It has granted loans to 74 enterprises since its founding in 1974. Interest rates are concessionary to Senegalese, and to anyone who agrees to locate outside Cap Vert peninsula (3.5% and 10.5% respectively). Regular loans are currently being made at 13% (with the credit line from the World Bank on which SOFISEDIT pays 2.9%). Medium (2-10 year) and long term financing is available, 15 years maximum for industrial projects, 20 for touristic. Minimum loan is 200,000 CFAF (\$10,000). Director was Ibrahima Ndiaye, who was just replaced this week.

Among the procedures of the SONEPI-SOFISEDIT system that exclude informal sector firms are the requirement that potential borrowers pay SONEPI to do preliminary viability and marketing studies. The \$10,000 minimum loan has the same effect, as do accounting procedures. Rural and small entrepreneur loans would have to be smaller, with greatly simplified application, counseling, and payment procedures.

SONEPI-SOFISEDIT might be considered by AID as potential cooperating agencies in extending credit, training, and management consultancy to the rural informal sector. They are not currently reaching any but the nearest rural areas to Dakar, and their programs and procedures are not yet suitable for mass or informal-sector participants. Having them study how credit, training, and consultancy could be adapted to mass participation might be an opportunity to assess their capacity to realize such a program.

Possible Project Approaches

Training

One of the areas universally cited as a major need is training and consultancy at all levels, in management, incentive analysis, work organization, and accounting. A number of organizations are already active in this field. The following overview may clarify AID's options.

At the top level management training has been provided by the Ecole Nationale d'Administration. In recent years, the government, private firms, and development donors have concluded that the approach used there for administration was not effective in industrial and commercial management. This led to the proposal for an Ecole Supérieure de Gestion Commerciale et Industrielle,

to be opened next year, with World Bank financing and Canadian staffing. It appears to be conceived to train top level managers, or top and middle level. It might, however, also be the best place to develop a program to instruct trainers of rural cooperatives, council officials, and small entrepreneurs.

At the middle level the Ecole Nationale d'Economie Appliquée trains rural development agents in local development planning, community organization, vocational education, and work with cooperatives. In the latter specialty it has already offered some instruction in accounting. We are currently negotiating with ENEA a potential PID to institutionalize beneficiary surveys as a regular component in their training program. To increase the applicability of the lessons of the beneficiary surveys, they would also like to train some of their staff in American management techniques, and simultaneously increase the management training component in several of their curriculum areas. ENEA already trains its students in transcription of local languages, and is willing to adapt and translate accounting and management materials for small entrepreneurs into local languages. Samba Dione would like copies of the Entente Fund textbook and Malcolm Harper's Consultancy for Small Business for that purpose. AID might sponsor preparation, publication, and distribution of such materials with ENEA. They could be printed by one of the major para-statal Senegalese publishers (Nouvelles Editions Africaines or Société Africaine d'Edition) or private (e.g. Imprimerie Diop).

An alternative to working with ENEA on these materials would be to work with SONEPI, which focuses more directly on management. SONEPI would like staff training, and also has the capacity to prepare curriculum materials and training programs.

The list of potential users of such materials include numerous existing vocational training programs, which have a management component: Maisons familiales, enseignement moyen pratique, the YMCA program, CARITAS diocésenal et National, and handicapped vocational training offered by the Fonds National d'Action Sociale.

Training programs for small producers are proliferating in the Cap Vert area, as the above list indicates. But only the maisons familiales reach the far outlying provinces, and they offer management training as part of a much longer program of study. It would be appropriate to organize short training programs for traders and small producers in rural market towns. They could also be provided in conjunction with SONEPI in the new regional industrial zones, if SONEPI is persuaded to integrate the informal sector into the zones.

Credit

Credit is generally available for productive and commercial enterprises in Dakar and regional capitals, from the Banque Nationale de Développement or SOFISEDIT. The preparation of an application file and minimum loan requirements, however, virtually require the borrower to be literate and fairly well off. Bank credit is generally not available in rural market towns, which leads to a thriving informal credit system with 50-400% interest rates.

Before deciding on the advisability of a rural credit program, however, more research must be done on the various credit policies of cooperatives and regional development agencies. The state and para-statal agencies have traditionally provided seed, fertilizer, and equipment to cooperatives on credit. Part of the current reform of cooperatives is to reduce the interest on seed from 25% to 12.5%; and to allow sub-units of the cooperatives (groupements de producteurs), instead of the whole cooperative to share collective liability. SAED seems to be making the same kind of reforms in its small perimeter projects in the middle valley, compared to its larger scale delta projects. ONCAD is also discussing release to cooperatives of stabilization funds impounded in the early 1960s, so that they can lend internally to their members of sub-units. No rural institution provides credit to lineages, informal sector producers and traders, marabout-entrepreneurs, or conseils ruraux. The merits and modalities of credit programs for them should be the object of further study.