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BANKING AND BUSINESS FINANCE IN BURKINA FASO

a report prepared for USAID/Burkina

by
Adrew D. Cao
Ronco Consulting Corporation

August 1983
revised August 1984

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EDITOR'S INTRODUCTION

The analysis in this report is the ouptut of a 4-week investigation undertaken by Andrew V. Cao. It is one of six technical reports prepared by a team assembled by the Ronco Consulting Corporation in May and June 1983. Others reports prepared in the course of this private sector assessmen include:

- Agriculture and Agribusiness, by Christopher Alden Mock;
- Business Management and Vocational Training, by Maurice N. Samaan;
- Marketing, by Axel Magnuson;
- Business Law, by Robert A. Garland; and
- Le cadre juridique des affaires au Burkina, by Karim Adjibade.

A new government came to power in Burkina Faso in August 1983, just after the Ronco team's investigations. Because the new authorities have effected a number of policy and institutional changes since then, USAID Burkina preferred to have the technical reports updated before disseminating them. I was hired as an outside consultant to do the updating. In the process of editing this report, I have operated according to the following principles:

1) Factural errors - normally arising from policy changes occurring after the period of the original investigations - have been corrected.

2) The scope of analysis and writing style remain unaltered from the author's original work.

3) The recommendations and qualitative assessments - based on extensive interviewing of businesspersons, government and donors - remain those of the original author.

So this report remains the creative work of its original author, Andrew V. Cao. I have reordered some of the sections to improve readability but other than that have adopted a minimalist role, largely confining my meddling to a historical updating of the document.

Steve Haggblade,

Ouagadougou, Septembre 1984

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LIST OF ACRONYMS

AVV	-	Autorite des Amenagements des Vallees des Volta
BCEAO	-	Banque Centrale des Etats de l'Afrique de l'Ouest
BIAO	-	Banque Internationale de l'Afrique Occidentale
BICIA	-	Banque Internationale pour le Commerce, l'Industrie et l'Agriculture
BIV	-	Banque Internationale des Voltas
CFA	-	Communaute Financiere Africaine
CNCA	-	Caisse Nationale de Credit Agricole
CNDI	-	Caisse Nationale de Depot et d'Investissement
CPV	-	Caisse Populaire Villageoise
FCFA	-	Franc de la Communaute Financiere Africaine
FED	-	Fond Europeen de Developpement
GOB	-	Government of Burkina Faso
OCAM	-	Organisation Commune Africaine et Mauricienne
OPEV	-	Organisation de Promotion de l'Entreprise Voltaique
ORD	-	Organisme Regional de Development
PFP	-	Partnership for Productivity
SIRD	-	Seguenega Integrated Rural Development Project
SWID	-	Strengthening Women's Role in Development
TEN	-	Taux d'Escompte Normal
TEP	-	Taux d'Escompte Preferentiel
TWIS	-	Training Women in the Sahel
UAVEC	-	Union des Associations Voltaiques d'Epargne et de Credit
UMOA	-	Union Monetaire Ouest Africaine
UREBA	-	Union Revolutionnaire des Banques

EXECUTIVE SUMMARY

The interest rate structure of Burkina is determined by the UMOA for all six its members and the BCEAO is the controlling body. For loans, there are two base rates: the 8% preferential base rate (TEP) with a maximum allowable margin of 3% reserved for crop financing, small and medium enterprises as well as for the construction of first homes. The normal base rate of 10.5% (TEN), with a maximum allowable margin of 5%, is applicable for all other loans effective April, 1983.

In terms of bank operations and performance, it has been found that the state ownership of all banks, except for the CNCA, ranges from 50% to 100%. There are basically five banks: the BIV, BICIA-HV, BND, CNDI and CNCA. Those banks have an extensive branching network. Yet, they cannot reach the remote rural areas due to lack of personnel and high unit operation costs in such areas.

By economic sector, it has been found that the share of commercial bank credit going to private firms has increased in all economic sectors except in agriculture where the GOVT had to give more help due to the inactivity of banks in the rural area.

In terms of maturity distribution of loans, there is a heavy concentration on short-term loans and a neglect of long term loans. The rate of loan default ranges between 0.28% to 1[illegible].48% and such poor performance has been caused not only by poor loan follow-up and unrealistic repayment schedules but also by the drought and worldwide economic recession. In terms of interest rate determinati banks form an association to fix the rates within the maximum ceiling stipulated by the BCEAO. This banking association divides all firms into six categories based on sales volume. Class A is the prime rate group, while Class F is the lowest group having to pay the highest rate within the ceiling regulated by the BCEAO. In terms of capital, banks are all undercapitalized and their profitability has been very low. In terms of credit allocation procedures, all banks have a problem of heavy collateral requirements and long delays in loan processing

As for nonbank financial institutions, the Caisses Populaires Villageoises, which group into Unions, are fairly effective in promoting and collecting savings in the rural areas as well as granting credit to their depositors. OPEV on the other hand, has had difficulty in its efforts to promote local business activity.

It has been found that in terms of credit impact on private enterprise development, private firms covered in the survey sample have excessive financial leverage due to over reliance on debt financing and due to the relatively easy access to credit for the large firm. The cost of credit represents only a very small proportion of total costs of these firms' operations.

It has been recommended that firms must rely more on retained earnings and equity financing, and improve their financial and production management, in order to be self-sustaining and profitable. The GOUV can help develop training in such fields and educate the private sector to rely less on the government. In terms of interest rates, it is recommended that the Ministry of Finance should start a discussion on adapting the monetary policy outlined by UMOA to each particular member country at the level of the UMOA Council of Ministers. In term of bank credit operations, it is recommended that credit be allocated via a portfolio of specialized banks in order to enhance technical expertise of loan officers by economic sectors, to improve loan processing, to reduce loan defaults and to promote the currently neglected rural sector. As for intere rate determination, it is recommended that economic development priorities must be taken into consideration as well as the character of the borrower, his capacity to repay, collateral and general economic conditions instead of relying solely on sales figures.

Although the private firms covered in the sample survey appear to have access to credit, the banking and nonbanking insitutions need to improve their services by providing better training to their personnel and by specializing in various types of economic activities so that no economic sector is neglected.

I. OBJECTIVES AND METHODOLOGY

A. Objectives

The objective of this report is to answer the questions listed below, and make appropriate recommendations:

1. What are the impacts of credit on private enterprise development, e.g., on capital structure, liquidity, and profitability?

2. What share of credit is allocated to the private sector and to which economic sectors, by maturity and from which sources: government and foreign?

3. What is the interest rate structure and how should it be determined for a credit line for private firms?

4. What is the best way to allocate funds to the private sector: via one bank, one new "Caisse Nationale d'Entreprise Privée", OPEV; via a portfolio of banks, or via the GOUV?

5. What is the financial situation of local banks and their credit allocation procedures and what are some of the capital market issues?

6. What are the advantages and disadvantages of the "Caisses Populaires Villageoises"?

3. Methodology

This study was conducted during four weeks in Burkina with the cooperation of two Burkinan counterparts: Mr. Nazaire Bicaba of the Central Bank of West African States (BCEA) and Mr. René Ouédraogo of the Ministry of Finance.

1. Data Collection

Secondary data were collected during the first week from the Central Bank of West African States (BCEAO), the Ministry of Plan, the Ministry of Finance, the Chamber of Commerce, the Organization for the Promotion of Private Enterprises (OPEV), all the banks and nonbank financial institutions. The analysis of secondary data helped to clarify the monetary and banking climate for Burkinan private enterprises and to design the formal research framework, methodology and work plan for the following three weeks.

Primary data, based on personal interviews and observations, were collected during the second week at Bobo-Dioulasso and during the fourth week at Ouagadougou. Interviews were conducted systematically based on one questionnaire for private entrepreneurs and another questionnaire for bankers (see Annex). The sample of private entrepreneurs consisted of executives of four manufacturing, four agro-industrial, four commercial, and four service firms, as well as four farmers and four artisans. For each of these groups, two businesses were chosen at random and two were selected because of their importance. The sample of banker consisted of the top executive officers of five banks and four nonbank financial institutions.

2. Data Analysis

The analysis of data and report writing were done by the U.S. and Burkinan members of the money and banking mini-team and the final copy was carefully checked and double-checked by all members for consistency. Objective criteria were used to assess the impact of credit on private firms. The criteria are standard financial ratios described as follows:

- the current ratio - which measures the liquidity position of a firm. It is obtained by dividing the total current assets (cash + marketable securities + accounts receivable + inventories) by the total current liabilities (accounts payable + notes payable + other short term liabilities) given in a firm's balance sheet. This ratio gives an objective indication of whether a firm has a liquidity problem due to lack of working capital. A ratio of 1.0 indicates that a firm is solvent because its total current assets cover all its total current liabilities. Although specific industry averages are not available to use as norms, a current ratio of 2.0 is acceptable in a country such as Burkina. A higher ratio would indicate that firms are not managing their working capital properly.

- the total expenses to sales ratio - measures the effectiveness of the firm in managing its expenses relative to sales. The higher the ratio the lower the profitability of the firm tends to be. It is obtained by dividing total expenses (general and administrative expenses, excluding costs of goods sold, depreciation and interest expenses) by sales as stated in the firm's income statement.

- the interest expenses to sales ratio - measures the weight of the interest burden on sales. If there is heavy reliance on debt sources, but the interest expenses to sales ratio is low, this indicates that the cost of debt is not excessive. This ratio is obtained by dividing interest expenses paid on debt by sales as stated in the firm's income statement.

- the total debt to total asset ratio - measures how much of all assets are financed by debt. The higher the ratio, the more financial leverage has been used. A high ratio tends to indicate that firms have had little difficulty in obtaining credit in the past. Of course a current high debt/asset ratio might well mean the firm will have difficulty obtaining more credit in the future. Although industry averages are not available for comparative purposes, a ratio exceeding 0.5 is considered high. This ratio is obtained by dividing all short and long-term debts by total assets as stated in a firm's balance sheet.

- the accumulated retained earnings to total asset ratio - measures how much a firm relies on internal sources of funding to finance its assets. This ratio is obtained by dividing accumulated retained earnings by total assets as stated in a firm's balance sheet.

- the equity to total assets ratio - measures how much the firm uses equity to finance its assets. This ratio is obtained by dividing total equity by total assets as stated in a firm's balance sheet.

- the return on investment ratio - measures the profitability of the firm relative to its total investment in assets. This ratio is obtained by dividing the net income after tax (as stated in the firm's income statement) by total assets (as stated in the balance sheet of the firm).

3. Limitations

This study has been conducted within the following limitations and constrair

1. the time limitation of four weeks prevents a more in-depth analysis with testing, feedback and a large sample;

2. the data available are limited in terms of quantity, timeliness, and uniformity as the figure for one item can differ from one source to another forcing the researcher to derive one based on judgement and/or on the reputation of the source.

4. Organization

This study consists of four parts:

- a general overview of the West African Monetary Union;

- an overview of the financial institutions operating in Upper Volta;

- an assessment of the credit allocated to private enterprises; and
- the impact of credit on private enterprise development.

II. BURKINA AND THE WEST AFRICAN MONETARY UNION

Burkina belongs to the West African Monetary Union (Union Monetaire Ouest Africaine, UMOA), an organization which fixes a number of key monetary parameters that prevail throughout the member countries. Before describing the specifics of the financial institutions and monetary policies affecting private enterprises in Burkina it is necessary to understand the operation of the UMOA which, to a large extent, conditions the environment in which the local institutions operate.

A. Description

Burkina is one of seven members of the UMOA along with Benin, Ivory Coast, Mali, Niger, Senegal and Togo. Established in 1962, the UMOA was substantially reorganized through a new treaty signed on November 14, 1975. The union provides for: a single currency circulating within the union; a common central bank, the Central Bank of West African States (Banque Centrale de l'Afrique de l'Ouest, BCEAO); centralized foreign exchange reserves; free transfer of funds within the union; common banking legislation; and a common interest rate structure.

The common currency circulating within the UMOA is called the CFA franc, the franc of the Communaute Financiere Africaine. Although not a member of the union, France is a signatory of the treaty establishing the UMOA. Under that treaty, France guarantees convertability of the CFA franc at the rate of 50 FCFA = 1 French franc. Their guarantee operates by providing overdraft facilities through an Operations Account held by the UMOA with the French Treasury. In return for the French guarantee of CFA convertability, the African States within the UMOA have agreed to undertake certain measures when foreign reserves fall below a specified level and also to maintain at least 65% of their foreign currency reserves in the Operations Account.

As the common central bank for the member countries, the BCEAO uses several major tools in regulating financial institutions within the UMOA. In principle the BCEAO can, and has at one time or another, set rediscount ceilings and rates, reserve requirements, absolute credit ceilings, and it also intervenes in intra-union money market to influence interest rates. The BCEAO can also, by unanimous vote of its member states, set borrowing and lending rates as well as allowable bank margins that must then be adopted in all member countries.

3. Findings

1. BCEAO Control of the Money Supply.[1]

As with any central bank, one of the most important prerogatives of the BCEAO is that of controlling the supply of money within its jurisdiction. Until 1975, the BCEAO controlled the money supply in the UMOA by fixing reserve requirements and rediscount ceilings. Between 1962 and 1975, the central bank's major concern was not to limit the money supply but rather to assure the availability of sufficient liquidity to allow the economies of the member states to function smoothly. Because of the commercial banks' small deposit base, rediscounting and loans from correspondent banks abroad were the principal resources banks could use as a basis for credit creation. The BCEAO kept rediscount rates low and stable, and in practice rediscount ceilings were liberal enough that, through 1975, they were never exhausted.

Since 1975, the BCEAO has altered its procedures in several important ways. First, they no longer impose reserve requirements on banks. Second, they have created an intra-union money market in order to keep scarce monetary resources within the union. This move was motivated by a substantial outflow of banking resources searching for higher returns abroad. Because international interest rates - especially in the late 1970's and early 1980's - were significantly higher than those in the UMOA, because of the guaranteed convertability of the CFA franc, and because of the low rediscount rate at the BCEAO, banks within the UMOA were able to borrow cheaply at the central bank and place their funds abroad at considerable gain. The UMOA money market is a free market in which the central bank intervenes to keep rates roughly in line with international rates, thereby now making it attractive for banks to keep their reserves within the union. A third modification, operating in Upper Volta since 1980, is that the BCEAO has instituted direct credit ceilings for each country; not only are rediscount ceilings set but total credit allocated (rediscountable plus nonrediscountable) is limited by the central bank. Burkina's National Credit Committee then allocates their country ceiling among the local commercial banks. The motivation for instituting the global credit ceilings sprang principally from the ineffectiveness of the previous methods of monetary control - rediscount ceilings and reserve requirements. Steady growth in domestic deposits has provided banks with a substantial supply of their own resources on which to grant credit, making the rediscount ceilings increasingly ineffective as a means of controlling monetary aggregates.

So today, the aggregate money supply within the UMOA is controlled roughly as follows. The BCEAO sets absolute credit limits for each member country based on National Credit Committee projections of monetary requirements. The central bank also sets rediscount rates and individual country rediscount ceilings within the global credit allowance. Within each country, both total and rediscountable credit are allocated among individual banks by the National Credit Committee (NCC). Certain restrictions are placed on the rediscount mechanism. No long-term credit is rediscountable. For short and medium-term credit, firms are classed by the NCC according to financial solvency. Firms in the most precarious financial condition are denied rediscount privileges. Seasonal credit necessary for crop financing is essentially unrestricted. It is, for example, automatically eligible for rediscount without limit. And while it is included as one element of the country's global credit ceiling, the crop financing element is only an indicative figure; it is not an absolute binding maximum.

In addition to setting the absolute level of monetary aggregates, the BCEAO plays some role in influencing their distribution. The BCEAO does, for example, restrict direct government borrowing at the central bank to 20% of a country's receipts in the previous fiscal year, thereby influencing the distribution of credit between private and public sectors. They attempt to channel credit into specific economic sectors only to the extent that the member countries have established joint priority sectors - crop financing, the construct of private housing, and small and medium-scale indigenous enterprises - which receive preferential interest rates as described below.

2. BCEAO Role in Determining Interest Rates.

By statute, all interest rates - deposit rates, borrowing rates and rediscount rates - within the UMOA must conform to guidelines set by the BCEAO. This uniformity is a practical necessity, because unrestricted currency circulation within the union allows funds to flow freely from one country to another - and they would flow if borrower or deposit rates become more favorable in one country than another. So the uniform interest rate structure is really a necessary adjunct to the principle of free circulation of currency within the union.

For deposits, the BCEAO allows banks to fix a negotiable rate of interest paid to public accounts, but for private accounts, the rate of interest is fixed throughout the union. The rates increase with the size of deposits as shown in Table 1. For example, as of August 1984, a deposit of equal to or

TABLE 1

INTEREST RATE STRUCTURE FOR DEPOSITS

DETERMINED BY THE B.C.E.A.O.

Types of Accounts	1982	1983	1984
Public Accounts	Negotiable	Negotiable	Negotiable
Private Accounts:			
- Checking Account of:			
- 200,000 CFAF or less	0.00	0.00	0.00
- 201,001 to 500,000 CFAF	4.50	3.50	3.50
- 500,001 to 2 Million CFAF	5.00	4.00	4.00
- Above 2 Million CFAF	≥ 5.00	≥ 4.00	≥ 4.00
- Saving Accounts	9.50	8.50	8.50
- Time Deposits of Less Than 6 Months:			
- 200,000 CFAF or less	7.25	6.25	6.25
- 200,001 to 500,000 CFAF	7.75	6.75	6.75
- 500,001 to 2 Million CFAF	8.25	7.25	7.25
- More than 2 Million CFAF	≥ 8.25	≥ 7.25	≥ 7.25
- Time Deposits & Certificate of Deposit of 6 to 12 Months:			
- 200,000 CFAF or less	8.25	7.25	7.25
- 200,001 to 500,000 CFAF	8.75	7.75	7.75
- 500,001 to 2 Million CFAF	9.50	8.50	8.50
- More than 2 Million CFAF	≥ 9.50	≥ 8.50	≥ 8.50
- Time Deposits & Certificate of Deposit of More Than 1 Year:			
- 200,000 CFAF or less	≥ 9.25	≥ 8.25	≥ 8.25
- 200,001 to 500,000 CFAF	≥ 10.00	≥ 9.00	≥ 9.00
- 500,001 CFAF or more	≥ 10.50	≥ 9.50	≥ 9.50

Source: B.C.E.A.O., General Conditions Applied to Banks of the U.M.O.A., Ouagadoug Upper Volta, 1982-1984; and BCEAO Staff.

less than 200,000 CFAF (about $500) in a checking account received no interest payment but the rate can be 4% or more if the size if the deposit is above 2 million CFAF. For savings accounts, all deposits receive a standard rate of 8.5%. As for time deposits, the interest rate increases with the maturity as well as size of the deposits. For example, with a time deposit of 200,000 CFAF or less, one can receive 6.25% for less than 6 months maturity, 7.25% for 6 to 12 months and 8.25% for more than a year. Note that there is room for banks and depositors to negotiate when the size of the deposit or the maturity exceeds the maximum indicated by the BCEAO.

For loans, the uniform interest rate structure is set by the Administrative Council of the BCEAO; and, as with deposits, the rates charged on loans become law in Upper Volta by virtue of an arrete issued by the Ministry of Finance. Table 2 shows the current borrowing rates in effect in Burkina and throughout the UMOA. Credit to priority sectors - crop financing, small and medium-sized firms owned by nationals, and to people building their first home - is rediscountable at the base preferential rate (Taux d'Escompte Preferentiel, TEP). The rate to borrowers is calculated as the TEP plus the banker's margin, which must fall within the ranges specified in Table 2. As of August 198[illegible], the base preferential rate (TEP) is 8%, having declined from 10% in 1982 as the BCEAO followed the downward trend in world interest rates. For all loans outside the three priority sectors, the borrowing rate is computed as the normal rediscount rate (Taux d'Escompte Normal, TEN) of 10.5% plus a maximum margin of 5%.

It is important to know how the BCEAO-mandated interest rates compare with the rate of inflation. In other words, what is the real rate of interest they charge? A recent study by financed by the World Bank has determined that from 1978 to 1982 real interest rates (nominal rate minuse the rate of inflation were 8.15%, 1.4%, 4.2%, 3.7% and 6.9% respectively for borrowers paying the

TABLE 2

INTEREST RATE STRUCTURE OF LOANS
DETERMINED BY THE B.C.E.A.O.

(In Percent)

	1982[1]	1983[2]	1984
Crop Financing			
- Basic Preferential Rate (TEP)	10.0	8.0	8.0
- Minimum Margin	+1.0	+1.0	+1.0
- Maximum Margin	+2.0	+2.0	+2.0
Loans of Less Than 30 Million CFAF to Indigenous Small & Medium Firms			
- Basic Preferential Rate (TEP)	10.0	8.0	8.0
- Minimum Margin	+1.0	+1.0	+1.0
- Maximum Margin	+3.0	+3.0	+3.0
Loans of Less Than 15 Million CFAF to Builders of First Homes			
- Basic Preferential Rate (TEP)	10.0	8.0	8.0
- Minimum Margin	+1.0	+1.0	+1.0
- Maximum Margin	+3.0	+3.0	+3.0
Others			
- Basic Normàl Rate (TEN)	12.5	10.5	10.5
- Minimum Margin	+0.0	+0.0	+0.0
- Maximum Margin	+5.0	+5.0	+5.0

Notes: 1 Effective April 7, 1982
2 Effective April 5, 1983

Source: B.C.E.A.O.; <u>General Conditions Applied to Banks of the U.M.O.A.</u>, Ouagadougou. Upper Volta, 1982-83; and BCEAO Staff.

maximum rate allowed by the BCEAO.

3. Interest Rate Determination by the Banks.

Within the ranges set by the BCEAO, lending banks fix the appropriate rate for individual borrowers. Banks in Upper Volta have agreed on a common classification of borrowers and on standard mark-ups for enterprises in each category. Through their association, the Association Professionnelle des Banques (APB), the banks have agreed to classify all business enterprises into six categories based on their level of sales. The six categories, A through F, are delineated in Table 3. The largest firms, those with annual sales of 4 billion CFAF (about $10 million) or more, borrow at the lowest rate, 12.5%; while the highest rate fo 15.5% is charged to borrowers with sales of less than 200 million CFAF. Note that there is an equal increment of .5% from one class to another although the increment of sales goes by 2 billion CFAF, then 1 billion, the 500 million, then 300 million.

The variation of the margin above the TEP or TEN up to the maximum ceiling allowed by the BCEAO is not determined by risk related criteria such as: the liquidity position of the borrower, whether or not it is an existing business, its financial leverage, the character of the borrower, his capacity to rpay, his collateral, and the economic condition of the business. Based on our interviews with bankers, it seems that these criteria are not systematically incorporated in the anatomy of bank interest rate structures. Finally, besides the existence of the preferential rate TEP, the lower maximum margin of 2% for rural and agricultural loans, and 3% for housing, no preference is currently given for the promotion of labor intensive enterprises, of firms producing necessary goods, nor of firms promoting the use of local contents which provide spill-over effects.

In addition, the fact that banks get together to fix the price of their

TABLE 3

INTEREST RATE DETERMINATION BY BANKS

(Effective August 1984)

Businesses Classed by Annual Sales (in CFAF)	Classification	Base Rate	Added Margin	Total Interest Rate %
4 Billion	A	10.5%	3%	13.5%
2 Billion to 4 Billion	B	10.5	3.5%	14.0
1 Billion to 2 Billion	C	10.5	4.0	14.5
500 Million to 1 Billion	D	10.5	4.5	15.0
200 Million to 500 Million	E	10.5	4.75	15.25
200 Million	F	10.5	5.0	15.50

Note: The base rate here is the normal rate (Taux d'Escompte Normal= TEN) regulated and changed by the BCEAO in function of the world interest rate.

Source: Association of Bankers, Recapitulation Conditions, Ouagadougou, Upper Volt April 17, 1983; and interview with Association Professionnelle des Banques August 10, 1984.

product via an association represents a cartel. This acts as a detriment to market efficiency since there is no element of price competition among the various lenders.

C. Recommendations

Although the reforms taken in the UMOA do try to increase the flexibility of monetary policy in order to adapt more closely to the particular circumstances of individual members, nothing specific has been done for the economically weaker members such as Burkina. It is therefore recommended that the governing body of UMOA, which consists of the Conference of Head of States and the Council of Ministers, should try to develop more specific adaptative monetary policies and interest rate structures for Burkina.

While waiting for UMOA to reconsider its uniform monetary policy applied to economically unequal member countries, banks of Burkina should set their interest rate margin as a function of the following determinants for loans:

1. Macroeconomic determinants
The base preferential rate (TEP) with a low margin added should be applied to loans used in priority economic sectors as spelled out in the national economic development plan. The small margin added to the base rate can gradually increase up to the maximum allowable as the order of priority drops.

2. Micro-financial determinants
The margin added to any base rate, normal (TEN) or preferential (TEP), should vary as a function of the following four Cs rule of banking:

a. the character of the borrower (C-1). if the borrower is a new client, his "character" could be verified via his check writing pattern of overdrawing if he has a checking account. The loan officer could also check a few references, including his place of work if he is employed.

b. the capacity to repay (C-2). this requires a careful analysis of the business in order to make a good projection of cash flows and a reasonable, realistic and well planned repayment schedule.

C. the collateral (C-3). the size of the loan should not exceed 80% of the reasonable market value of the collateral to be independently appraised by a third party if possible.

D. the condition of the economy (C-4). business risk tends to increase during economic downturns affecting the borrower's capacity to repay. If his business sensitivity to economic fluctuations is high, a higher margin is warranted due to higher risk.

Based on the above four Cs rule of thumb, each bank can design a grading schedule for each criterion as well as a weighting system that will allow them to assign a composite score to each enterprise. Interest rate differentials can then be determined based on the composite score rather than simply relying solely on total sales figures.

For deposits, it would be more logical to pay a lower interest rate for passbook savings accounts and a higher interest rate for all time deposits at various maturities and sizes instead of the present rate structure. This is logical despite the banks' objective of luring more small individual depositors who are unfamiliar with time deposits, and the banks' needs to meet their own cash requirements.

III. AN OVERVIEW OF UPPER VOLTA'S FINANCIAL INSTITUTIONS

A. Assessment of Bank Financial Institutions

1. Description.

As indicated in Table 4, there are basically five banks in Burkina:

a. BICIA-HV (Banque International pour le Commerce, l'Investissement et l'Agriculture): The International Bank for Trade, Investment and Agriculture of Upper Volta is a commercial bank constituted in 1973 with an initial capital of 430 million CFAF. The Government contributed 51% of the capital, local individual shareholders contributed 4%, foreign individuals held 23% and foreign banks owned 22%.

b. BIV (Banque Internationale des Voltas): The International Bank of Upper Volta was established in 1974 with an initial capital of 600 million CFAF. The GOUV contributed 40.9% of the capital, local individual shareholders contributed 4%, foreign individuals held 0.1% and foreign banks owned 48.9%. Like BICIA, BIV is a commercial bank.

c. BND-HV (Banque Nationale de Developpement-Haute Volta): The National Development Bank of Upper Volta was established in 1962 with an initial capital of 1.1 billion CFAF. The GOUV contributed 54.5% of the capital, foreign banks owned 18.2% and the rest is equally divided among local banks, local individuals and foreign individuals. BND has a broad mandate; it accepts deposits, does extensive commercial banking as well as granting credit normally associated with development banks. Since 1980, though, most of its agricultural financing has been devolved to the newly created CNCA. And along with CNDI, BND is eligible to hold equity in enterprises for the GOUV.

d. CNDI (Caisse Nationale de Depot et d'Investissement): The National Fund for Deposit and Investment was established in 1973 with an initial capital of 1.7 billion CFAF contributed fully by the GOUV. The CNDI is different from

TABLE 4

BURKINA: BANK CHARACTERISTICS

haracteristics	BICIA-HV	BIV	BND-HV	CNCI	CNCA
onstitution Date	1973	1974	1962	1973	1980
nitial Capital (Millions CFAF):	450	600	1,100	1,700	1,300
- State share (%)	51	40.9	54.5	100	38.4
- Local Individual share (%)	4	10.1	9.1	-	7.7
- Foreign individual share (%)	23	0.1	9.1	-	15.4
- Local bank share (%)	-	-	9.1	-	7.7
- Foreign bank share (%)	22	48.9	18.2	-	30.8
3ranch Distribution:					
- Permanent Branches:					
- Ouagadougou	3	3	2	1	1
- Regions	6	15	11	-	-
- Periodic at	Pouytenga	Pougtanga	Miangologo Kougoubi		

Source: U.M.O.A., Directory of 1982, Dakar Senegal, 1982.

other banks in that its holds primarily GOUV tresury funds as its resources. In addition to normal commercial banking operations, the CNDI takes equity participation in enterprises on the part of the government.

e. CNCA (Caisse Nationale pour le Credit Agricole): The National Fund for Agricultural Credit was established in 1980 with an initial capital of 1.3 billion CFAF. The GOUV contributed 38.4% of the capital, local individuals owned 7.7%, foreign individuals held 15.4%, local banks held 7.7% and foreign banks had 30.8%.

CNCA is the primary banking institution charged with making medium term agricultural loans, although they also engage in substantial amounts of commercial banking.

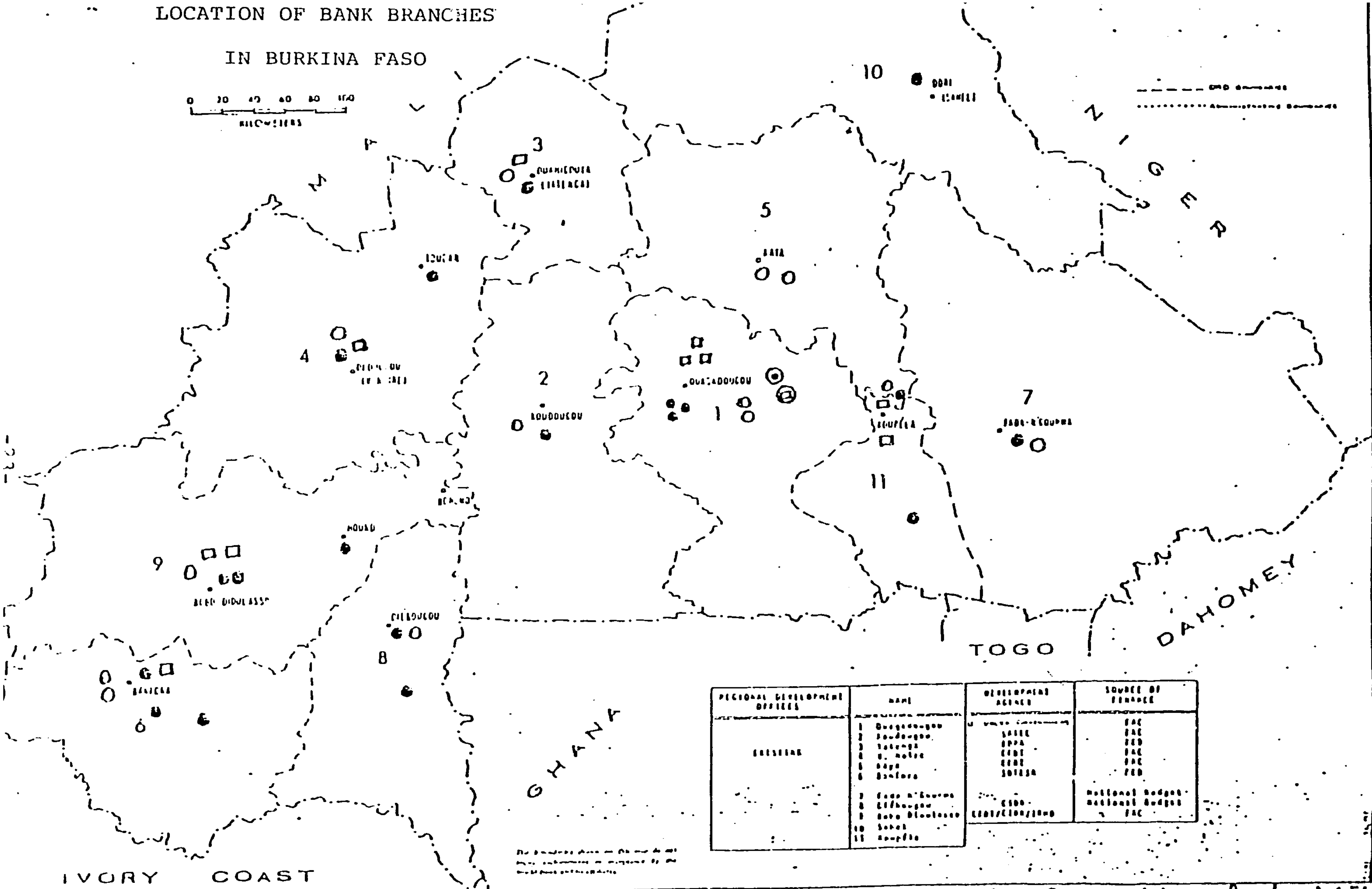
In addition to these five banks, the GOUV is currently (August 1984) moving towards the creation of another set of banks: the Union Revolutionnaire des Banques (UREBA), the Banque de l'Habitat and a Fonds National d'Investissement Publics (FNIP). UREBA and the Banque de l'Habitat have actually been created although neither has any funding as yet, while FNIP has not yet been created. Little information is currently available about these new institutions beyond the general notions that UREBA is to serve as a source of financing for local governments, the Banque de l'Habitat is to fund land acquisition and home construction by low income urban dwellers, and the FNIP is aimed at financing high priority national development projects.

2. Findings

a. Branching Network. As indicated in Table 4 and Figure 1, except for the CNDI and CNCA which have only one permanent branch each in Ouagadougou, the other three banks have a fairly widespread branching network around the country with a concentration on active urban areas. For less active rural

LOCATION OF BANK BRANCHES

IN BURKINA FASO



• BIV = Banque internationale des Voltas

□ BICIA = Banque internationale pour le Commerce, l'Industrie et l'Agriculture de HV

O BND = Banque Nationale de développement

Ⓓ CNDI = Caisse Nationale des Dépôts et d'investissements

Ⓒ CNCA = Caisse Nationale de Crédit Ag...

areas such as Pouytenga or Kougoubi, branches are open only during the market days.

b. Maturity Distribution of Loan Portfolio. As shown in Table 5, the BIV and the BICIA-HV have a very high proportion (over 70%) of their loan portfolios in short-term maturities. The BND-HV and CNCA also have a high proportion (about 40% and 50% respectively) of their loan portfolios in short-term maturities. Only the CNDI, which is 100% owned by the GOUV, has a very small percentage (7.23%) of their loan portfolio in short-term maturities and more in longer term maturities. Private banks seem to avoid higher risk, longer term loans, and prefer the security of short-term loans as indicated in interviews. Only the GOUV is willing to assume longer term risk.

In long term maturities, the BICIA-HV and the CNCA did not have any loans. Only the CNDI and the BND-HV which are both majority GOUV owned, had 10 to 15% of their loan portfolios in long-term loans during 1981-83 as shown in Table 5.

In medium term maturities, the CNDI dominated the group with 71.47% of its loan portfolio, followed by the CNCA with 50.34%, the BND-HV with 37.81%, the BICIA-HV with 27.58% and the BIV with only 15.48% during the same year.

c. Rate by Default. As indicated in Table 5, as of 1982 the BND-HV led the group in terms of loan losses of 13.48% of their total loan portfolio followed by the BIV which lost 10.45%, the CNDI with 10.25%, the BICIA with 3.14% and the CNCA with only 0.28%. Note that all banks experienced a rise in loan losses and this might not only be due to poor management but also to the latest drought and economic recession.

d. Bank Performance. As indicated in Table 6, the BICIA-HV has been the most profitable among all banks between 1981-82 with a rate of return on investment (ROI) of around 0.70%. The BIV had a loss in 1982 while the CNDI and CNCA were barely profitable.

TABLE 5

BURKINA CREDIT ALLOCATION BY BANK-MATURITY & DEFAULT

(1981-1982)

Maturity	BIV Millions CFAF	BIV %	BICIA-HV Millions CFAF	BICIA-HV %	BND-HV Millions CFAF	BND-HV %	CNCA Millions CFAF	CNCA %	CNDI Millions CFAF	CNDI %
Short Term										
1981	14,251	77.12	14,020	70,62	9,040	43.37	661	62.12	231	4.27
1982	14,340	73.93	15,387	69,28	8,105	38.52	1,078	49.38	403	7.23
1983	16,078	74.38	15,864	69.05	10,153	42.87	2,440	69.81	115	2.16
Medium Term										
1981	2,658	14.38	5,302	26,70	8,906	42,72	403	37.88	4,051	74.82
1982	3,002	15.48	6,122	27.58	7,955	37,81	1,099	50.34	3,985	71.47
1983	3,165	14.64	6,344	27,61	10,254	43.29	1,055	30,19	3,711	69,64
Long Term										
1981	9	0.05	-	-	2,710	13,00	-	-	830	15.33
1982	28	0.14	-	-	2,145	10,19	-	-	616	11,05
1983	38	0.18	-	-	2,359	9.96	-	-	386	7.24
Default										
1981	1,562	8.45	532	2,68	190	0,91	NA	NA	302	5.58
1982	2,027	10.45	698	3,14	2,837	13.48	6	0.28	572	10.25
1983	2,334	10.80	768	3.34	919	3.88			1,117	20.96
Total										
1981	18,480	100	19,854	100	20,846	100	1,064	100	5,414	100
1982	19,397	100	22,207	100	21,042	100	2,183	100	5,576	100
1983	21,615	100	22,976	100	23,685	100	3,495	100	5,329	100

Source: BCEAO, Annual Reports of 1981-1982, Ouagadougou, Upper Volta, System per 1981-1982, and BCEAO Staff.

TABLE 6

BANK PERFORMANCE IN BURKINA

1981-82

Performance	BIV		BICIA-HV		BND-HV		CNDI		CNCA	
	1981	1982	1981	1982	1981	1982	1981	1982	1981	1982
Net income (Million CFAF)	202.9	-9.95	188.38	216.56	-51.4	NA	872.4	1,169.5	-4.5	4.5
Return on Investment (%)	0.81	-0.03	0.71	0.73	-0.19	NA	5.08	0.054	-0.23	0.14
Deposits to Equity Ratio (%)	2,648	3,465	2,315	2,635	1,208	NA	5.08	55.04	6.22	9.82
Demand Deposits to Time Deposits & Savings (%)	713	593	339	202	22,68	NA	280	199	1.42	0.47

Source: BCEAO, Annual Report of Banks, Ouagadougou, Upper Volta, September, 1981 and 1982.

Note: 1. The BND has failed to meet the BCEAO filing deadline since September 1982.

In terms of capitalization, all banks have extremely low equity relative to total deposits. As shown in Table 6, the ratio of total deposits to total equity was 3,265% for the BIV and 2,635% for the BICIA-HV in 1982. For the BND-HV which failed to file their 1982 Annual Report on time to the BCEAO, no data on 1982 is available but for 1981, the ratio was 1,208%. Only the CNDI, which is government owned, had a reasonable ratio of 55.04% while the CNCA did not seem to be able to attract enough deposits and, therefore, had a total deposits to equity ratio of only 9.92% in 1982.

In terms of composition of deposit accounts, it appears that except for the CNCA, most banks did have a fairly sizeable proportion of demand deposits relative to time deposits. In 1982, the BIV had a ratio of demand deposits to time and savings deposits of 593% while the BICIA-HV had 202%, the CNDI with 199% and the CNCA with only 0.47%. It appears that banks do not have to pay high costs for funds as most of them come from low interest bearing demand deposit accounts, which in part stems from the lack of sophistication in cash management of their customers. In fact, a few customers refuse to accept any interest on their deposits because their religion (Islam) prohibits such practice, yet when they borrow from the same bank, they have to pay interest.

e. Credit Allocation Procedure. In order to receive a loan from a bank, the borrower must present to the bank the description of the use of the loan and the sales projection of the business. The bank will actually visit the site of the business to assess the value of the business and its feasibility. If acceptable, it then requires collateral to be put up - which normally exceeds the total value of the loan. For existing business, the bank requires the last three years' financial statements. The first major problem is that the accounting of firms is often incomplete or imprecise, especially in the commercial sector where many entrepreneurs do not often know how to write or read, thus limiting their ability to keep books. Under these circumstances; it is difficult for loan officers to evaluate the precise risk of a loan and often, in order to cover themselves, they require substantial collateral in order to make the loan. If the size of the loan does not exceed the authority of the loan officer, required documentation reportedly takes, on average, one month. The borrower, however, normally has to wait another month or two, and sometimes three months, if the size of the loan exceeds the authority of the loan officer and it has to be reviewed by the Board for approval. If the size of the loan exceeds the authority of the bank lending Board (30 million FCFA or about $75,000) can take up to six months for the whole process, because the file must be sent to the BCEAO for consideration.

Once a loan is approved, disbursement can be in total or in part depending on how the bank views the needs of the borrower. The problem resides in the repayment schedule because banks often seek early repayment, sometimes even before the borrower can start to generate revenue for repayment. Furthermore, during the time of the outstanding loan, banks do not have a well planned schedule of site visits in order to keep track of what is happening to the business and to give appropriate technical or managerial assistance before the business runs into trouble.

3. Recommendations

Because this section on assessment of banks is more complex than the others, the recommendations will try to address the following two major questions: a) whether credit allocation should be made via the GOB, via one bank or via a portfolio of banks; and b) how loan processing could be improved.

a. Credit Allocation Channel Recommendations. In practice it is impossible for one single bank or one public institution such as the GOB to handle the credit allocation role entirely. One single channel of credit distribution would create a colossal credit monster which would be buried under its own bureaucratic weight.

It would be more practical to have a portfolio of banks such as the existing ones found in Burkina to allocate credit more rationally. It is necessary, however, that the monetary authorities consider the reestablisment of bank specialization which was abolished in 1975, when monetary authorities dispensed with the distinction between development and commercial banks, allowing all banks to make loans to any sector of the economy. The institution of bank specialization by economic sector would solve for instance the current problem of neglect by the banks of the agricultural and rural sectors. Specialization would solve the current problem of lack of expertise and field experience of most bank personnel. It would allow them to get to know better their clientele and the basis of their clientele's problems in order to make more accurate loan decisions and more helpful technical advice which would help prevent default.

b. Loan Processing Recommendations. The major problem of loan processing is time. It always takes time to process a loan because the four Cs discussed above need to be thoroughly verified. This is a normal and sound banking practice. Of course, a simple loan would require less time than a complex loan. Despite everything, the loan processing time in Burkina could be shortened with personnel trained to help the borrower furnish all the documents necessary. Better training and specialized experience in individual business fields would increase the output per man hour of bank personnel.

c. Cocktail Loan Recommendation. It is advisable that banks get together with their excess reserves to form a large pool of loanable funds for large projects which require loans exceeding the capacity of a single bank. Such a pool of resources from a mixture of banks is called a "cocktail loan" arrangement. It enables the spreading of risk as well as a spread of maturities since some banks have a higher amount of excess reserves for longer term maturities than others. A cocktail loan arrangement would help increase the availability of credit for longer maturities.

B. ASSESSMENT OF NONBANK FINANCIAL INSTITUTIONS

1. Capital Market Issues

a. Findings. There is currently no formal capital market in Upper Volta although banks and other firms do have some distribution of stock ownership among Voltan and foreign individuals, and among national and foreign businesses. For example, BRAVOLTA is 95% owned by a French group called SOGEPAL, but the rest belongs to private individuals. VOLTEX has 73.6% State ownership, but 25.3% belongs to Foreign Private Investors. The remaining 1.1% is held by private Burkinan's. With Flexifoam, private local individuals own 90.9% of the business.

Whenever a firm wants to issue new stock, the potential buyers tend to be friends, relatives or lending banks. The announcements of new issues are not made public and the offerings are therefore limited. As there is no real market for stocks and most stock buyers do not know how to read a financial statement, stock price is computed on per share book value rather than market or intrinsic value.

b. Recommendations. For the development of a capital market which could be active and useful to a country, it requires a great deal of preparati a long period of trial and error, and of adjustments. In the case of Burkina certain preconditions would be called for:

1) The willingness of private firms to forego the traditional personal or family control attitude commonly found in developing countries. This will happen when the pressure of expansion needs exceed the capital capacity of individuals/families/close friends - which forces companies to rely on external equity or nonbank debt financing (bond). This constitutes the supply side of a capital market.

2) The willingness of private individuals and institutions to

invest their money in the securities offered. This is the creation of the demand side of a capital market. This takes place only when the investors are informed about the existence of securities offerings and about their attractiveness relative to other investment alternatives in terms of return, risk, marketability and liquidity. In Burkina, there are already individuals and institutions that constitute such demand although its force is still very weak. It could be stronger, however, if a favorable institutional framework would exist as discussed in the following point.

3) A capital market relies on a common language for the communication of information, i.e., a common accounting system which provides a common set of financial statements containing a standardized measurement of the issuing firms' performance and prospects. At present, there are still two accounting systems used in Burkina the old French system dating from 1957 which is more or less a simple bookkeeping system. Unfortunately, it does not lend itself too well to analysis of financial performance. There is the more recent OCAM accounting system (Organisation Commune Africaine and Mauricienne) which presents the financial performance of the firm more clearly with more disclosure of information. Small and medium firms tend to use the former while larger firms tend to rely on the latter.

4) Finally, in any market, supply and demand always need intermediation and this role is already being carried out by banks in Upper Volta. With the expansion of supply and demand of securities, banks might want to have a formal bureau of securities, and later on some might want to specialize in investment banking, if such specialization proves to be profitable.

2. <u>OPEV (Office de Promotion de l'Entreprise Voltaique)</u>

a. <u>Description</u>. OPEV was created in 1970 for the promotion of new enterprises and for the development of existing ones. It was originally conceived as an institution to provide technical and managerial assistance and not financial funding, but because the business community was not well informed about its exact role, most entrepreneurs who came for help asked for funding. Hence, from the start OPEV had a major problem of identification. Because of the substantial volume of requests, OPEV created a Fond de Participation with the financial backing of Holland and Germany. The limit to OPEV participation with each enterprise is 10 million CFAF with the explicit understanding that within five years the entrepreneur would buy back all the shares which belong to OPEV as a result of its initial equity participation.

b. Findings. OPEV has had difficulty meeting GOB and donor's high expectations for its technical and managerial help to private entrepreneurs. Many banks give little weight to the feasibility studies done by OPEV because such studies are often felt to be superficial or inaccurate in the opinion of bankers interviewed.

c. Recommendation. OPEV needs to strengthen the technical competence of its staff via formal and informal training in order to reestablish respect in their feasibility studies. It also needs to improve its image via a formal public relations program to inform the banks and its clientele about the reforms it is undertaking.

3. Caisse Populaire Villageoise (CPV)

a. Description. The first CPV was created in 1972 at the Regional Development Organization (Organism Regional de Development, ORD) or Bougouriba in southwest Upper Volta. Subsequently, the concept was adopted by the ORDs of the Volta Noire and Kaya as well. In the beginning, the CPV was managed by the Center for Social Studies of West Africa (Centre d'Etude Social de l'Afrique de l'Ouest, CESAO) but because the CESAO practices and intent were questioned by the ORDs, the CPV was given to the Canadian Caisse des Jardins for management purposes.

The CPV is basically an accumulation of small rural savers, the savings of whom are collected by an agent of the Caisse des Jardins periodically during market days. These CPVs are then grouped into a Voltan Union of Savings and Loans (Union des Associations Voltaiques d'Epargne et de Credit - UAVEC). Currently there are 28 CPVs which are members of UAVEC. Seven of these are from the Kongoussi-Tekare region of the North, ten from the Hounde region, four from the Bobo-Dioulasso region of the Upper Basin, six from the Dedougou region and one from the Solenzo region of the Volta Noire. The total number of participants is 1,350 and the average number per CPV is around 48.

The UAVEC has an elected President, Vice-President and three representatives for the three regions. It also has one coordinator, one administrator of the central bank, one advisor for credit matters, one assistant accountant and one secretary. The CPVs are managed by village officers who work for free to help the UAVEC. These officers receive formal training necessary for the management of their CPVs.

The UAVEC pays 5% interest on the deposits collected from the nonmembers which are generally groupings of peasants' savings from their cooperative sales of cotton. It pays 6% to its members who have saving accounts and 7% those who contribute to the capital of the Union. Depositors can withdraw their money anytime during the market days by a simple signature on the book of CPV manger or with a witness if one does not know how to write. The simplicity of the system is quite appropriate from a marketing standpoint because it does not frighten the peasants, yet it provides them with a convenient instrument for savings and earnings.

The UAVEC also lends money to depositors at the same rate they receive for their deposits to finance their purchases of fertilizer, cows or carts. It also lends to CPVs for the construction of pharmacies, school shops and cereal banks.

b. Findings. The CPVs and UAVEC are very popular and beneficial rural financial institutions for the country as they perform a very necessary credit function which regular banks cannot perform due to costs and lack of resources. The initial growth of UAVEC has been quite impressive with total assets rising from 35 million to 55 million CFAF between 1979-80. Total deposits grew from 18.5 million to 24.5 million CFAF, while total loans went from 7 million to 11.5 miilion CFAF during the same period.

4. Other Nonbank Financial Institutions

Numerous other nonbank financial institutions also operate in Upper Volta, providing credit to private enterprises. Several USAID funded credit programs are described in Section IV.C. But many others also operate in Upper Volta, including those run by the AVV, PRODIA and a number of PVOs.

IV. FUND ALLOCATION FOR PRIVATE ENTERPRISE DEVELOPMENT

A. Credit Allocation by Economic Sector

1. Description.

Table 7 describes the allocation of credit by economic sector since 1980. There has been a very modest but steady increase in the proportion of credit allocated to each sector except for the industrial sector where there was a drop in share from 39.51% to 28.62% between 1980-83 as shown in Table 7. Note, however, that despite this decline, the private sector share of industrial credits showed a gain at the expense of credits to the public sector. The private gain was from 40.09% to 43.15% between 1890-83 versus the public decline of 59.91% to 56.85% during the same period. Such allocation trends between public and private sector shares appears to hold true throughout all economic sectors except for agriculture where the public share increased drastically from 24.79% to 90.78%.

This apparent increase in government use of a agricultural credit is really only a statistical artifact. It occurs because the CNCA was created in 1980, and donor credit that was formerly loaned directly by ORDs to farmer groups was henceforth channeled via the CNCA to the ORDs and from there to the farmer groups. Before 1980 the ORD loans to farmers were not included in the monetary statistics, and from then onwards they were included as CNCA loans to ORDs thus appearing as increased government use of agricultural credit when in reality the only change was an institutional shift in the channels through which the funds flow.

2. Findings.

It was found that by economic sector, the private share of credit increased for all sectors except for agriculture. But this increase in public share of agricultural credit really only represents the new institutional delivery system

TABLE 7 (continued)

2. Due to the BCEAO report code all statistics go from September to September.

3. Include all privately owned enterprises plus those with minority government participation.

4. Excludes direct central bank advances to central government, includes all enterprises with majority government participation as well as ORDs and other public establishments not part of the central government.

introduced with the creation of the CNCA. More important is the low absolute level of agricultural credit. Banks are reluctant to lend money to farmers - due to high operating costs as well as high risk according to the bankers interviewed.

3. Recommendations.

It is recommended that in order to control the allocation of credit by economic sectors and between the public and private sectors, the next economic development plan should specify exactly what are the important economic sectors to be emphasized and their exact order of priority.

The Ministry of Finance should carry out the planned monetary policy traced out in the economic development plan by giving specific quotas for credit allocation to banks and by having semiannual audits of bank loan portfolios.

B. Credit Allocation by Maturity

1. Description.

By maturity, it appears that there was a decrease in the proportion of short-term credit in the agricultural, commercial and mining sectors while there was an increase in the industrial, service and construction sectors. As shown in Table 7, the increase in share of short-term credit was the most obvious in the industrial sector, rising from 19.08% to 52.2% between 1980-83. Its share of medium term credit remained constant while its share of long-term credit dropped from 45.94% to 12,82% during the same period. In the agricultural sector, the share of medium term financing increased drastically from 23.97% to 75.75% during the 1980-83, but remained alomost nil for long-term credit. The same phenomenon of negligence in the long-term credit allocation is apparent throughout all economic sectors.

BURKINA: CREDIT ALLOCATION BY ECONOMIC SECTOR & MATURITY[1] (1980-1983)[2]

Economic Sector	Millions C.F.A.F.	Percentage of Year Total	Private[3] Sector Share (%)	Public[4] Sector Share (%)	Short Term (%)	Medium Term (%)	Long Term (%)
Agriculture							
1980	363	0.79	75.21	24.79	79.03	23.97	–
1981	1,161	2.32	28.08	71.92	37.30	62.70	–
1982	1,826	3.40	15.66	84.34	28.31	71.63	0.06
1983	2,606	4.06	9.21	90.79	24.17	75.75	0.07
Industry							
1980	18.157	39.51	40.09	59.91	19.08	34.98	45.94
1981	18.032	36.09	45.82	54.18	40.54	41.44	18.02
1982	16.255	30.27	45.55	54.45	43.39	39.87	16.74
1983	18.371	28.62	43.15	56.85	52.22	34.96	12.82
Services							
1980	9.472	20.61	50.98	49.02	19.30	71.31	9.38
1981	11.150	22.32	50.67	49.33	22.47	69.73	7.79
1982	11.586	21.57	54.43	45.57	26.97	63.63	9.39
1983	12.617	19.65	63.18	36.82	31.04	61.36	7.60
Commerce							
1980	15.954	34.71	60.19	39.81	88.96	10.56	0.48
1981	17.406	34.84	69.76	31.24	86.14	13.37	0.47
1982	19.810	36.89	70.61	29.39	85.78	12.60	1.62
1983	23.241	36.21	64.30	35.70	83.66	16.08	0.26
Construction							
1980	1,945	4.23	98.20	1.80	84.27	15.73	–
1981	2,184	4.37	99.73	0.27	86.08	13.92	–
1982	2,992	5.57	99.40	0.60	89.64	10.36	–
1983	3,045	4.74	99.47	0.53	81.22	18.78	–
Mining							
1980	68	0.15	100.00	–	30.88	69.12	–
1981	27	0.05	100.00	–	100.00	–	–
1982	1,227	2.29	13.77	86.23	68.73	36.27	–
1983	4,311	6.72	4.01	95.99	4.87	95.13	–

Source: Banque Centrale des Etats de l'Afrique de l'Ouest, Annual Reports of 1980,'81,'82 Ouagadougou, Haute Volta, September 1980, 1981, 1982, and BCEAO Staff.

Notes: 1. The short term maturity runs from 1 month to less than 2 years; medium term from 2 to 10 years and long term for more than 10 years.

3.

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2. Findings.

It has been found that long-term credit is lacking in all economic sectors. This is a hindrance to the development of any sector of the economy, including the private sector, as long-term financing is needed for capital investment in new business ventures anf for capital expansion in existing ones. This problem has been pointed out by many businessmen during interviews. They indicated that because of the lack of long-term sources of finance and the scarcity of medium term sources, they have to rely on short-term sources of credit which put a lot of pressure on them from stringent repayment schedules.

3. Recommendation.

Based on the economic development objectives found in the economic development plan, credit resources should be allocated by maturity as well. The Ministry of Finance through the National Credit Committee, should designate the specific proportions of credit for short, medium and long-term loans to various banks. Semiannual audits of bank loan portfolios could be used to enforce the planned monetary policy.

C. Foreign Assistance

As indicated in Table 8, total annual foreign aid to Upper Volta increased from $223.8 to 326 million between 1978-81. The average annual growth rate was approwimately 14.6%. The share of bilateral aid tended to shrink from 72.8% in 1978 to 48.4% despite an increasing commitment by the U.S. from 13.12% to 15.48% during the same period. The share of multilateral aid on the other hand increased from 27.2% to 51.6%.

The sectoral breakdown of foreign aid indicates that 70.4% of the cumulative total between 1975-81 was for projects of which the rural sector share was 25.7%. Non-project aid amounted to 29.6% of which food aid and technical assistance took

TABLE 8

BURKINA: OFFICIAL DEVELOPMENT ASSISTANCE[1]
1978-1981
(in millions of U.S. dollars)

(1) SOURCES	(2) 1978	(3) 1979	(4) 1980	(5) 1981	(6) Annual Cumulation	(7) = AID-(6) AID/Total (%)
Bilateral						
France	33.0	55.4	68.4	47.3	289.0	20.8%
Federal Republic of Germany	23.5	28.6	16.2	45.3	167.8	12.1
Netherlands	29.0	23.3	34.3	24.2	147.1	10.6
USA[2]	21.4	23.6	31.0	29.9	134.9	9.7
Canada	44.2	2.6	3.6	5.8	82.4	5.9
Other Donors	11.9	15.9	3.6	5.3	49.7	3.6
Sub-Total I	163.0	149.4	157.1	157.8	870.9	62.7%
Percentage of Total	72.8%	73.5%	62.7%	48.4%		
US/Total Bilateral Ratio (%)	13.12%	15.79%	19.73%	18.94%	15.48%	
Multilateral						
World Bank Group	12.2	-	35.0	62.0	163.9	11.8%
European Development Fund	17.7	20.8	40.5	39.3	157.6	11.3
United Nations	5.7	16.1	8.5	42.5	91.6	6.6
Others	17.9	15.4	3.4	14.4	67.3	4.8
OPEC Fund	7.3	1.6	6.0	10.0	37.7	2.7
Sub-Total II	60.8	53.9	93.4	168.2	518.1	37.3%
Percentage of Total	27.2%	26.5%	37.3%	51.6		
Total AID	223.8	203.3	250.5	326.0	1,389.0	100.00%

Source: AID, Country Development Strategy Statement. Upper Volta, Washington, DC, January 1983.

Notes: 1. Including food aid.
2. Including the Peace Corps.

9.8%, respectively, as shown in Table 9.

It is difficult to assess the direct impacts of foreign assistance on private enterprise development because viturally all aid goes through the GOB An attempt, however, is made in this section to detect some of the direct and indirect spill-over effects caused by foreign aid.

1. Selected USAID Projects.

a. Partnership for Productivity (PFP)

(i) Description. The Partnership for Productivity (PFP) received a $617,000 Operational Program Grant (OPG) from AID/Ouagadougou to promote enterprises in the Eastern Department of Upper Volta. PFP advisers design and test credit delivery mechaninsms and appropriate technical assistance packages in order to upgrade rural business practices. The PFP activities encompass two subproject areas, Fada N'Gourma and Diapaga.

During Phase I, PFP made 416 loans totalling $275,000 to 313 clients of which almost half went into the commercial sector, one quarter to artisans, and the rest to agricultural production, livestock and transmport. Loan sizes vary between $35 to $3,170 and the average size is $670.

In 1982, PFP renamed its activities Development Project for Small Economic Activities to reflect better its focus on small enterprises. One interesting activity worth mentioning is the First Women's Association of Fada (Premiere Association des Femmes de Fada, PAFF) which consists of a committee of three women who received an initial credit of 160,000 CFAF in 1980 to lend in turn to women who undertake very small commercial activities, but who could not be helped by other lenders due to lack of qualifications. In 1982, the PAFF lent 1,870,000 CFAF to thirty eight women. Borrowers from PAFF are required to open a savings account with PAFF and the required deposit schedule is 1,000 CFAF every two months.

The loan rate is 5% and the saving rate is 3%. The rate of loan repayment

TABLE 9

BURKINA:

SECTORAL BREAKDOWN OF OFFICIAL DEVELOPMENT

ASSISTANCE COMMITMENTS

1975-81

	US$ millions	Percentage
1. Project Aid		
Rural Development	357.0	25.7
Infrastructure	346.8	25.0
Natural Resources	127.2	9.2
Human resources	104.8	7.5
Industry	41.6	3.0
2. Non-Project Aid		
Food Aid	135.8	9.8
Technical Assistance	126.0	9.1
Balance of Payments support	43.3	3.1
Budget Support	32.0	2.3
Other	74.2	5.3

Source: AID, Country Development Strategy Statement: Upper Volta, Washington, D.C., January 1983.

to PAFF is virtually 100%. This is indicative of the success of PAFF as a private enterprise as well as of its clientele in their own private business ventures.

(ii) Findings. Despite high operating costs and rapid exhaustion of available capital resources due to rapid growth of loan activities, PFP has been successful in helping the development of rural private enterprise, especially the very small ones which normally are untouched by traditional credit allocation via banks. Obviously, PFP has been successful in promoting private entrepreneurship among the minority women who have been traditionally neglected as a substantial contribution to economic development.

(iii) Recommendations. In order to control costs, PFP should set up a budget with control procedures to be applied monthly or quarterly as well as adjustment procedures for the correction of cost overruns. Training in bookkeeping and accounting procedures is necessary in order to maintain good records of revenues and expenses.

b. Strengthening Women's Role in Development (SWID)

(i) Description. SWID was an early USAID experiment in trying to provide rural women access to credit and to train them in the effective use of credit. The project fund was $1.65 million for 1976-81. It has granted a total of 244 loans to 1,100 women in the participating regions: Koudougou, Koupela, and Bougouriba. The most obvious impacts of SWID on private enterprises can be seen in the way credits are used to create or expand small business activities such as millet beer manufacture, transformation of locust into bean cakes and shea nuts into butter, and the resale of tobacco, kerosene and kola nuts. The reinmbursement rate was 100%.

(ii) Findings. Despite its positive impact on private enterprise development, SWID had a problem a lack of control at the ORD level (the credit distributor of SWID funds) because they failed to maintain appropriate documentation on loan allocations.

(iii) Recommendation. USAID can require monthly or quarterly reports of loan activities from the ORDs. It also can have field inspections periodically in order to evaluate the progress made by the ORDs in the improvement of their documentation procedures. Furthermore, USAID can also train the ORD officers in the basic method of loan evaluation by using basic loan application and repayment schedule forms for loan control. Finally, USAID can also require that for loans above certain maximum amounts, the ORDs should consult with USAID officials for final approval.

C. Training Women in the Sahel (TWIS)

(i) Description. TWIS was created in order to train women in their agricultural activities and to provide revolving credits for the development of such activities. Training was done either at the village level or via an extension agent or via a project trainer. The revolving credits were granted to groups of women and not to individuals in order to promote cooperation and larger scale activities. For a loan of up to $1,000 there must be at least 10 women, and 15 for loans above $1,000. The maturity is one to two years with a one year grace period. The interest rate is 8%. Each group project needs a village committee to submit the credit request to an extension agent who then submits it to the ORD for approval. Loans of less than $1,000 do not require a feasibility study, but above that sum AID requires one for its final approval. As an initial capital contribution to the project, the village group should have contributed at least 5% of the project cost.

(ii) Findings. TWIS did help to promote private enterprises at the rural level, but it helped individual women instead of group enterprises, as originally planned. Some women formed into groups in order to qualify for the loan but once the loan was disbursed they split up the money for individual operations. Note, however, there were some group projects which work well such as the cereal bank loans.

(iii) Recommendations. In order to have better control of the utilization of the loan by groups instead of by individuals, USAID can request progress reports from the ORDs based on actual field visits for evaluation of the group project. Also, the disbursement of the loan can be done gradually instead of in a balloon form as the group enterprise moves along.

d. Revolving Credit Funds of the Integrated Rural Development Project Seguenega (SIRD)

(i) Description. To help the villages develop, certain revolving credit funds were to be established: $26,500 Agricultural Credit for equipment and expendable materials, $13,000 Women's Credit for equipment and materials not supported by other funds, and a Self Help Fund for small village projects not supported by other funds.

In the last quarter of 1981, 2,475,000 CFA credit from the Agricultural Credit Fund was granted for fertilizer and various small agricultural implements. Fertilizer made up the bulk of the credit granted. Villager confusion over the conditions of the credit to be granted and the general unavailability of the quantities of small agricultural implements requested have held up the operation of this fund.

The Women's Credit Fund began in 1982 with the purchase of a mill and motor by the women's association of Konde-Tangaye. The project has purchased five more mills (and motors) for subsequent resale on credit to other villages. It appears that the principal future activity of this fund will be to finance the purchase and installation of village mills.

The initial success of the milling operation at Konde-Tangaye has come to the attention of other neighboring villages, which are now requesting installation of mills.

The Self Help Fund began its credit operations in early 1982 with the approval of a loan to the Suegenega Village Development Committee to set up a grain bank in Seguenega (from which grain will be pruchased initially from the project) and resold to villagers. The first tranche (400,000 CFA) of the total loan, 800,000 CFA, was paid out in the first quarter. Slightly over half of the first tranche was used to start filling the grain bank with millet. Feasibility studies were to start in September 1982 for the installation of grain bnaks in Koudouma and Beringa.

(ii) Findings. Although the SIRD revolving credit funds have some positive impacts on private enterprise develoment at the rural level, it has been found that such funds are still being underutilized.

Also, the "growth point" objective of the project has not been achieved due to a lack of success in the credit sale of fertilizer and the problem of market overlap of some milling facilities.

(iii) Recommendations. It is recommended that, if a fund is underutilized, consideration be given to reallocating a part of those monies to other funds whose activities have proven successful.

Additional milling facilities should be installed only after careful consideration is given to location in order to avoid market overlap and to insure proximity to grain banks. Furthermore, to ensure that the potential of milling activities is met, mill maintenance and repair channels must be established for timely availability of spare parts and repairs.

2. Other Donors

a. Description

(i) European Funds for Development, (Funds Europeans the Development - FED). It contributed close to 8 billion CFAF of which 56% was allocated to the rural sector, 28% to the construction of infrastructure and the rest of social activities. As examples, FED gave a portion of the total commitment of 1,056 billion CFAF to CNCA for credit allocation and development of young farmers. It also had 3.2 million CFAF committed for a study on credit allocation and development of plow utilization. FED also lent close to 4.4 million ECU (European Currency Unit = 312 CFAF) to SOSU-HV.

(ii) The World Bank financed up to 280 million CFAF for the development of small and medium private enterprises in 1981 as well as 56 million CFAF for the RAN in the same year.

(iii) Dutch aid also goes into private sector promotion, for example: in the funding of OPEV with 95 million CFAF; of SAVANA; of the industrial zone of Kossodo, the Silmande hotle with a total of 419 million CFAF up to 1981; 469 million CFAF for the expansion of the Ouagadougou slaughter enterprise and 588 million CFAF for a tomato canning enterprise.

(iv) Canadian aid supplied: The RAN with 3.15 billion CFAF up to 1981; fruit and vegetable cooperatives with close to 26 million CFAF; the Groupements Vollageois (GV) with a total of 15 million CFAF, and they also finance the promotion of the Caisses Populaires Villageoises (CPVs).

(v) German aid also participates in the funding of OPEV, an organization to which they channeled 462 million CFAF through 1981. They also contributed 977.5 million CFAF to VOLTEX, provided import credits of 1.4 billion CFAF, as well as bank credit of 460 million CFAF to BND, and of 200 million CFAF to CNCA.

(vi) French aid, through both the CCCE and the FAC, supports private sector development in a number of areas. Through 1981, the French have provided OPEV with 343 million CFAF, the TAMBAO project with 60 million, and the Silmande hotel with 185 million. They also provide significant funding for agricultural development and for individual enterprises such as the Hotel Independance, Air Afrique and VOLTEX.

b. Findings

It has been found that the GOUV does not have a careful plan for the coordination of foreign aid receipts based on the economic development objectives of the country and their order of priority. The Ministry of Planning and the Ministry of Finance do not play an active enough role in channelling foreign aid into the priority sectors or priority projects. Furthermore, foreign funds are often allocated to institutions which fail to efficiently utilize the scarce financial resources.

c. Recommendations

It is recommended therefore, that the Ministry of Planning and the Ministry of Finance should take a more assertive role in guiding foreign aid into priority economic sectors and priority projects as indicated by the economic development plan. Although much foreign aid is tied aid, the two Ministries can always help the donors by presenting to them their objectives, priorities and problems so that funds are allocated appropriately.

V. CREDIT IMPACTS ON PRIVATE ENTERPRISE DEVELOPMENT

Having seen the broad institutional framework as well as the sectoral allocation of credit in Upper Volta, we now have the background necessary to examine the impact of that financing on private enterprises. In assessing the effect of financing - or lack of it - on private businesses, a stratified sample of firms was selected for study. The selection procedure, described in section I.B, allowed for the selection of 16 large, modern firms - four manufacturers, four agribusiness firms, four service establishments and four commercial enterprises. In addition, four agricultural operations and four artisinal firms were also interviewed bringing to 24 the total number of private businesses interviewed. For the 16 large-scale firms, it has been possible, through interviews and research at the BCEAO, to construct certain important financial indicators which appear in Tables 10 through 13. But since this information is of a confidential nature, the firms' privacy has been protected by failing to indicate which financial ratios belong to which firms. For the agricultural and artisinal firms, financial records simply do not exist; and we did not have sufficient time to reconstruct them. So information reported for these 8 small, informal sector firms will be of a qualitative nature. Nonetheless, it will be extremely important for comparative purposes. In the ensuing discussion, we will examine the impact of credit on capital structure, firm liquidity and profitability.

A. Impact on Capital Structure

1. Description.

a. Selected Manufacturing Firms:

VOLTEX (textiles), Flexifoam (foam rubber products), MAVOCI (cigarettes) and BRAVOLTA (brewing) were selected for analysis. As indicated in Table 10, all firms relied excessively on debt financing as measured by the total debt to

TABLE 10

BURKINA: FINANCIAL CHARACTERISTICS OF SELECTED MANUFACTURING FIRMS

FINANCIAL RATIOS (%)	Firm A	Firm B	Firm C	Firm D
Current Ratio				
1980	102	90	18	NA
1981	103	92	6	189
1982	93	NA	NA	141
Total Expenses to Sales Ratio				
1980	20	57	116	NA
1981	22	36	92	26
1982	23	NA	NA	21
Interest Expenses to Sales Ratio				
1980	1	8	56	NA
1981	3	9	71	0.4
1982	3	NA	NA	1
Total Debts to Total Assets Ratio				
1980	61	76	72	NA
1981	66	75	98	32
1982	61	NA	NA	48
Accumulated Retained Earnings to Total Assets Ratio				
1980	13	6	26	NA
1981	11	7	0	21
1982	13	NA	NA	20
Equity to Total Assets Ratio				
1980	26	18	2	NA
1981	23	18	2	47
1982	26	NA	NA	32
Return on investment Ratio				
1980	6	-8	-14	NA
1981	2	-1	-19	14
1982	1	NA	NA	13

Source: B.C.E.A.O., Financial Statements of Manufacturing Firms, Ouagadougou, Upper Volta, 1980-82.

total asset ratio.* Firm C actually had 98% debts in 1981, Firm B had 75% and Firm A 66%. Only Firm D was conservative with 32% in the same year but in 1982 it increased to 48%. It is not surprising to find, therefore, very low levels of equity financing either via retained earnings or via stocks as shown in Table 10.

b. Selected Agro-Industrial Firms

SOSU-HV (sugar), SOFITEX (cotton), CITEC (vegetable oils), and GMV (grain milling) were chosen for analysis. Except in the case of Firm G, which had only 16% debt in 1980, the other three were excessively leveraged and very thinly capitalized as shown in Table 11. In 1982, Firm F had a total debt to total asset ratio of 76%. In 1980, both Firm E and Firm H exceeded the 80% mark. Retained earnings financing was minimal.

c. Selected Commercial Firms. were COVODIAM (automobile sales), SOVOLCOM (retail distribution), Attie Maan (exporter) and Compaoré Harouna (importer). It is interesting to note that in the commercial sector only a few firms were heavily indebted, Firms I and L had total debt to total asset ratios of 81 and 68%, respectively, during 1982. Firm J and K, on the other hand, relied less on debt and, hence, were more equity capitalized with an equity to total assets ratio of 79 and 72%, respectively, in 1981. This is caused by an underdeveloped system of international bankings and correspondence services of the local banks as well as by their reluctance to finance international trade. In fact, for imports, the local merchants are required to deposit 25% of the import value in the servicing bank without interest for the issuance of letters of credit, and for this reason many importers try to bypass banks by dealing directly with the exporters once trust is established between

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* For ease of understanding, inter-company ratio comparisons are shown as percentages.

TABLE II

BURKINA: FINANCIAL CHARACTERISTICS OF SELECTED AGRO-INDUSTRIAL FIRMS

FINANCIAL RATIOS (%)	Firm E	Firm F	Firm G	Firm H
Current Ratio				
1980	117	NA	465	104
1981	146	114	NA	NA
1982	NA	107	NA	NA
Total Expenses to Sales Ratio				
1980	32	NA	16	24
1981	33	88	NA	NA
1982	NA	86	NA	NA
Interest Expenses to Sales Ratio				
1980	9	NA	0.3	9
1981	7	16	NA	NA
1982	NA	14	NA	NA
Total Debts to Total Assets Ratio				
1980	82	NA	16	83
1981	64	75	NA	NA
1982	NA	76	NA	NA
Accumulated Retained Earnings to Total Assets Ratio				
1980	10	NA	78	1
1981	19	4	NA	NA
1982	NA	4	NA	NA
Equity to Total Assets Ratio				
1980	10	NA	16	16
1981	19	21	NA	NA
1982	NA	20	NA	NA
Return on investment Ratio				
1980	7	NA	21	-1
1981	9	-6	NA	NA
1982	NA	-2	NA	NA

Source: B.C.E.A.O., Financial Statements of Agro-Industrial Firms, Ouagadougou, Upper Volta, 1980-82.

BURKINA: FINANCIAL CHARACTERISTICS OF SELECTED COMMERCIAL FIRMS

FINANCIAL RATIOS (%)	Firm I	Firm J	Firm K	Firm L
Current Ratio				
1980	NA	358	352	NA
1981	120	324	234	132
1982	165	NA	NA	152
Total Expenses to Sales Ratio				
1980	NA	5	5	NA
1981	6	9	7	8
1982	7	NA	NA	8
Interest Expenses to Sales Ratio				
1980	NA	0.2	1	NA
1981	1	2	3	2
1982	2	NA	NA	1
Total Debts to Total Assets Ratio				
1980	NA	14	18	NA
1981	82	10	28	74
1982	81	NA	NA	68
Accumulated Retained Earnings to Total Assets Ratio				
1980	NA	7	7	NA
1981	11	11	0	17
1982	8	NA	NA	24
Equity to Total Assets Ratio				
1980	NA	79	75	NA
1981	7	79	72	9
1982	11	NA	NA	8

TABLE 12 (continued)

FINANCIAL RATIOS (%)	Firm I	Firm J	Firm K	Firm L
Return on Investment Ratio				
1980	NA	11	7	NA
1981	1	8	3	10
1982	0.1	NA	NA	13

Source: B.C.E.A.O., Financial Statements of Commercial Firms, Ouagadougou, Upper Volta, 1980-82.

them. In any case, for both heavily and thinly leveraged merchants, retained earnings financing remains minimal. (Please see Table 12).

d. Selected Service Firms. were SOCOPAO (packaging), SOBA (trucking), O. Kanazoe (principally construction), and RAN (rail transport). Once again, substantial financial leverage was found among the service firms. In 1980, Firm P had a total debt to total asset ratio of 85%, while Firm N had 77%, Firm O 62% and Firm M 66%. As a result, they were all very thinly capitalized. (Please see Table 13).

2. Findings.

Based on the above facts, it seems clear that most of the private firms included in this sample survey have relied heavily on credit to finance their operations. Many of the firms interviewed did take advantage of the availability of credit from banks instead of relying on their own equity capital or on internal retained earnings financing. The only exception is the commercial firms, which have lower financial leverage because of their smaller sizes. So it appears that credit availability is not a major problem in Upper Volta for many large, private firms. On the other hand, credit availability diminishes for the smaller the credit-seeking firms. Interviews with the banks revealed that, at least in part, this is due to illiteracy, lack of adequate bookkeeping and lack of proper documentation, all of which often make it difficult for the loan officers to make sound evaluation of loan applications for the small enterprises.

3. Recommendations.

Although credit availability is not a major problem to many large Voltan firms, it appears that the following areas need to be improved:

a. Banks need to provide more help to those borrowers who do not have the necessary background to follow all the required procedures

TABLE 13

BURKINA: FINANCIAL CHARACTERISTICS OF SELECTED SERVICE FIRMS

FINANCIAL RATIOS (%)	Firm M	Firm N	Firm O	Firm P
Current Ratio				
1980	54	73	91	113
1981	NA	108	NA	NA
1982	NA	NA	NA	NA
Total Expenses to Sales Ratio				
1980	9	38	30	89
1981	NA	44	NA	NA
1982	NA	NA	NA	NA
Interest Expenses to Sales Ratio				
1980	3	3	22	7
1981	NA	3	NA	NA
1982	NA	NA	NA	NA
Total Debts to Total Assets Ratio				
1980	66	77	62	85
1981	NA	68	NA	NA
1982	NA	NA	NA	NA
Accumulated Retained Earnings to Total Assets Ratio				
1980	53	7	22	8
1981	NA	4	NA	NA
1982	NA	NA	NA	NA
Equity to Total Assets Ratio				
1980	1	16	16	7
1981	NA	28	NA	NA
1982	NA	NA	NA	NA

TABLE 13 (continued)

FINANCIAL RATIOS (%)	Firm M	Firm N	Firm O	Firm P
Return on Investment Ratio				
1980	7	4	-1	2
1981	NA	2	NA	NA
1982	NA	NA	NA	NA

Source: B.C.E.A.O., Financial Statements of Service Firms, Ouagadougou, Upper Volta, 1980-82.

thoroughly, e.g., furnishing financial statements, sales projections, etc. Loan officers can be trained in order to help those unsophisticated customers. They should be trained in the elements of various kinds of businesses and investment projects, in order to be able to calculate appropriate financial indicators and make sales projections. Although some businessmen are illiterate, many of them have a good understanding of the business they want to get into without knowing how to translate the facts into modern forms of business management. With the help of the local Chambers of Commerce to provide guidance and training seminars together with the cooperation of banks, the private sector can be greatly assisted by providing necessary credit to those entrepreneurs.

b. Banks need to encourage firms with high total debt to total asset ratios to expand their equity base via more common stock and retained earnings financing, pointing out to those firms that a higher equity base would qualify them for more credit. As a start, banks could consider requiring that credit be made available only if the total debt to total asset ratio does not exceed 60%.

B. Impacts on Liquidity and Profitability

1. Description.

a. The first striking fact about most of the firms surveyed is that they are quite liquid. For instance, in 1980, Firm G had a current ratio of 465%; in other words its was able to cover its short-term liabilities 4.65 times over because of its extremely high level of short-term assets which could be liquidated within a short notice. A similar phenomenon can be seen among other firms such as D,E,J, and K, (see Tables 10-13). This is surprising because the facts contradict the complaints on liquidity (tresor) frequantly voiced by entrepreneurs during personal interviews. Of course, some firms did have a liquidity shortage such as the case of Firm C with a current ratio of 6% in 1981, Firm M with 54% in 1980, and Firm A with 93% in 1982. Note, however, that firms with low liquidity are very few in number (3 out of 16).

b. In terms of profitability, a quick overview of Tables 10, 11, 12 and 13 reveals that most firms are unprofitable as measured by the return on investment ratio (ROI) which is the ratio of net income to total assets. This relative measurement of profitability allows a comparison among firms. Among the 16 firms covered in the sample and based on the data available, five had a loss, eight had an ROI equal to or below 10%, and only 3 had an ROI above 10%. This was not caused by a high interest cost of credit since the interest expenses to sales ratio of thirteen firms was significantly below 10%. In order words, interest cost was <u>not</u> the main cause of low profitability despite a heavy reliance on debt financing. It is, rather, a combination of other elements such as administrative (government imposed) constraints, high import duties , and management factors which appear to have been the major causes of poor performance. This is reflected in the high total expense to sales ratios for the firms with consistent losses. As shown on Table 10, the total expenses to sales ratio of Firm B in 1980 was 57% and its interest expenses to sales ratio during the year was only 8%, yet it had a negative ROI of -8%. In the following year, when its interest expenses to sales ratio went up to 9% but when its total expenses to sales ratio went down to 36%, its ROI loss was reduced to only -1%. With the case of Firm C, it seems that the increase in the interest expenses to sales ratio from 56% to 71% during 1980-81 was the cause of the worsening ROI fo -14% to -19% because the total expenses to sales ratio actually dropped from 116% to 92%. It is indeed a fact, but such a phenomenon was the effect and not the cause. The real cause was more likely an increase in the amount of debt used as shown by the rise of the total debt to total asset ratio from 72% to 98% between 1980-81. The same analysis can be applied to Firm F and P.

If we look at the profitable firms such as A, D, E, B, L or N, all of them had very low total expenses to sales ratios as compared to those of the firms with losses discussed earlier. Those profitable firms could have been even more profitable had they known how to keep their current ratios lower in order to free up more liquidity for the financing of more profitable investment opportunities.

2. Findings.

Of the many private entrepreneurs interviewed, most felt the interest rates charged by banks were not excessive. Interest expenses for these firms represent only a minor proportion of total expenses. As a matter of fact, during an interview session with a group of artisans at Bobo-Dioulasso, they were asked to suggest an interest rate which would be acceptable to them. Their answer was 8%. It is interesting to note that for their deposits at the banks they are paid an interest rate of 8.5%.

It was also found that the low profitability of most firms has been caused mainly by excessive expenses which represent a major burden on sales revenues. As explained by many executives interviewed, this is due to poor control systems.

3. Recommendations.

In terms of liquidity management it is recommended that firms should try to maintain their current ratios between 100% to 150%. Within this range, the firm is liquid without wasting any working capital which can be used for other profitable purposes. In order to reduce their current ratios to the recommended range, firms can reduce their current assets by better management of cash, inventory and accounts receivable accounts.

It is also recommended that in order to control general and administrative expenses better, firms should set up budgeting techniques with control and adjustment procedures so that profitability can be improved.

VI. SUMMARY AND CONCLUSION

The interest rate structure in Burkina is determined by the UMOA for all of its members and the BCEAO is the controlling body. For loans, there are two base rates: the 8% preferential base rate (TEP) with a maximum allowable margin of 3% reserved for crop financing, small indigenous enterprises as well as for the construction of first homes. The normal base rate of 10.5% (TEN) with a maximum allowable margin of 5% is applicable for all other loans.

In terms of bank operations and performance, it has been found that the state ownership of all banks, except for the CNCA, ranges from 50% to 100%. There are five major banks: the BIV, BICIA-HV, BND-HV, CNDI and CNCA. Those banks have an extensive urban branch network. Yet they cannot reach the remote rural areas due to lack of personnel and high unit cost of operation in such areas. In terms of maturity distribution of loans, there is a heavy concentration on short-term loans and an absence of long-term loans. The rate of loan default ranges from 0.28% to 13.48% and such poor performance has been caused by not only poor loan follow-up and unrealistic repayment schedules but also by the drought and worldwide economic recession. In terms of interest rate determination, banks form an association to fix the rates according to six ranges of sales volume ranging from Class A, the prime rate class, to Class F, the weakest class having to pay the highest rate within the ceiling regulated by the BCEAO. In terms of capital, the banks are all undercapitalized and their profitability has been very low. In terms of credit allocation procedures, all banks have a problem of heavy collateral requirements and long delays in loan processing.

As for nonbank financial institutions, the Caisses Populaires Villageoises are very effective in promoting and collecting savings in the rural areas as well as granting credit to their depositors. OPEV has been less successful and has had to suspend its credit operations.

By economic sector, it has been found that the private sector share of credit allocations has increased in all economic sectors except in agriculture where the GOUV had to intervene due to the inability of banks to service the rural areas.

In terms of credit impacts on private enterprise development, the large, private firms covered in the sample survey have excessive financial leverage due to over reliance on debt financing. Yet the cost of credit represents only a very small proportion of total costs of the firms' operations.

It has been recommended that firms must rely more on retained earnings and equity financing, and improve their financial and production management in order to be self-sustaining and profitable. The GOUV can help develop training in such fields and educate the private sector to rely less on the government. In terms of interest rates, it is recommended that the Ministry of Finance start a discussion on adapting the monetary policy set by UMOA to each particular member country at the level of the UMOA Council of Ministers. In terms of bank operations, it is recommended that credit allocation via a portfolio of specialized banks is preferred in order to enhance the technical expertise of loan officers by economic sectors, to improve loan processing, to reduce loan defaults and to promote the currently neglected rural sector. As for interest rate determination, it is recommended that economic development priorities must be taken into consideration as well as the character of the borrower, his capacity to repay, the collateral and the condition of the economy instead of guaging credit worthiness solely on the basis of a annual sales.

Although the large, private firms covered in the survey sample appear to have ample access to credit, the banking and nonbanking institutions need to improve their services by providing better training to their personnel and by specializing in various types of economic activities so that no economic sector is neglected.

ANNEX 1

This annex houses the standard questionnaires used during interviews with business persons and bankers. The sampling procedure used for selecting firms to be interviewed is described in Section I.B. The actual list of firms as well as the survey results appear in Section IV. A.

QUESTIONNAIRE CHECKLIST FOR INTERVIEWS

FOR BORROWERS

I. Guide for the Interviewer on Money and Banking

A. Introduction: I am from USAID and my name is ______________________.

B. Purpose of Survey: The purpose of this interview is to analyze the credit needs, the problems you are facing and the recommendations that you might have.

II. Body of Questionnaire

A. Firm Characteristic (Use this section as a warm-up tool)

1. Name of firm:
2. Products:
3. Location/Address:
4. Age:
5. Size:
6. Profitability:

B. For Borrowers

1. Capital Structure/Composition (%)
    a. Debt:
    b. Equity:
    c. Retained Earnings:
2. Sources of Debt Financing
    a. Principal:
    b. Secondary:
    c. Others: (Explain)
3. Reasons for Relying on above sources
    a. Availability/Amount

b. Interest Cost

c. Technical Assistance

d. Closeness of Location

e. Compatability

f. Speed of Loan Processing

4. Maturity Distribution

a. Short Term

b. Medium Term

c. Long Term

5. Repayment Method

a. Calculation Method

b. Frequency

c. Installment Amount

d. Timing of First Repayment

e. Rescheduling Facilities

6. Collateral

a. Size in Proportion of Loan Amount

b. Type

- House
- Business Equipment
- Income
- Land
- Others (Explain)

7. Plan of Expansion of

a. Existing Line of Business

b. New Line of Business

8. What are the credit problems you have?

9. What are your recommendations?

III. Control Data

Name of Interviewer:

Name of Interviewee:

Position of Interviewee:

Date:

Time/Duration:

ANNEX 2

QUESTIONNAIRE CHECKLIST FOR INTERVIEWS

FOR LENDERS

I. Guide for the Interviewer on Money and Banking

A. Introduction: I am from USAID and my name is ____________________________

B. Purpose of Survey: The purpose of this interviews is to analyze the credit allocation, the problems you are facing and the recommendations that you might have.

II. Body of Questionnaire

A. Firm Characteristics (Use this section as a warm-up tool)

1. Name of Firm:
2. Products:
3. Location/Address:
4. Age:
5. Size:
6. Profitability:

B. For Lenders

1. What types of borrowers do you serve in order of importance:

	Least				Most
a. Farmers:	1	2	3	4	5
b. Manufacturers:	1	2	3	4	5
c. Commerce:	1	2	3	4	5
d. Others:	1	2	3	4	5

2. What is your maturity preference:

	Least				Most
a. Short Term:	1	2	3	4	5
b. Intermediate Term:	1	2	3	4	5
c. Long Term:	1	2	3	4	5

3. How do you characterize the average size of your loans (Explain).

   a. Small

   b. Medium

   c. Large

4. Your risk acceptance is:

Low				High
1	2	3	4	5

5. How do you measure risk

6. Repayment Method

   a. Calculation method

   b. Frequency

   c. Installment amount

   d. Timing of first repayment

   e. Rescheduling facilities

7. How do you establish your interest rate.

8. Collateral

   a. Size in proportion of loan amount

   b. Type

      - House

      - Business Equipment

      - Income

      - Land

      - Others (Explain)

9. How do you compare yourself with other banks?

10. How do you help your borrowers in their:

    a. development of ideas into project

    b. feasibility study

    c. expansion of existing business

    d. expansion into new business

    e. organization

    f. planning

    g. record keeping

11. What are the credit problems you have?

12. What are your recommendations?

13. What is the percentage of your lost loans?

14. How do you get evaluated for promotion?

III. Control Data

Name óf Interviewer:

Name of Interviewee:

Position of Interviewee:

Date:

Tme/Duration:

FOOTNOTES

1. This section draws heavily on three reports by the IMF: "Currency Convertibility in the Economic Community of West African States," DM/81/93, Decembre 24, 1981; "Currency Unions: The West African Monetary Union, the Central African Monetary Area, and the Eastern Caribbean Currency Authority," SM/82/183; and "Upper Volta - Recent Economic Developments," SM/83/112, June 2, 1983.

2. To qualify for the preferential interest rate based on the TEP, small and medium enterprises are defined as those in which: a) citizens of the UMOA hold at least 51% of the share capital; b) directors are UMOA citizens; and c) total bank credits do not exceed CFA 30 million.