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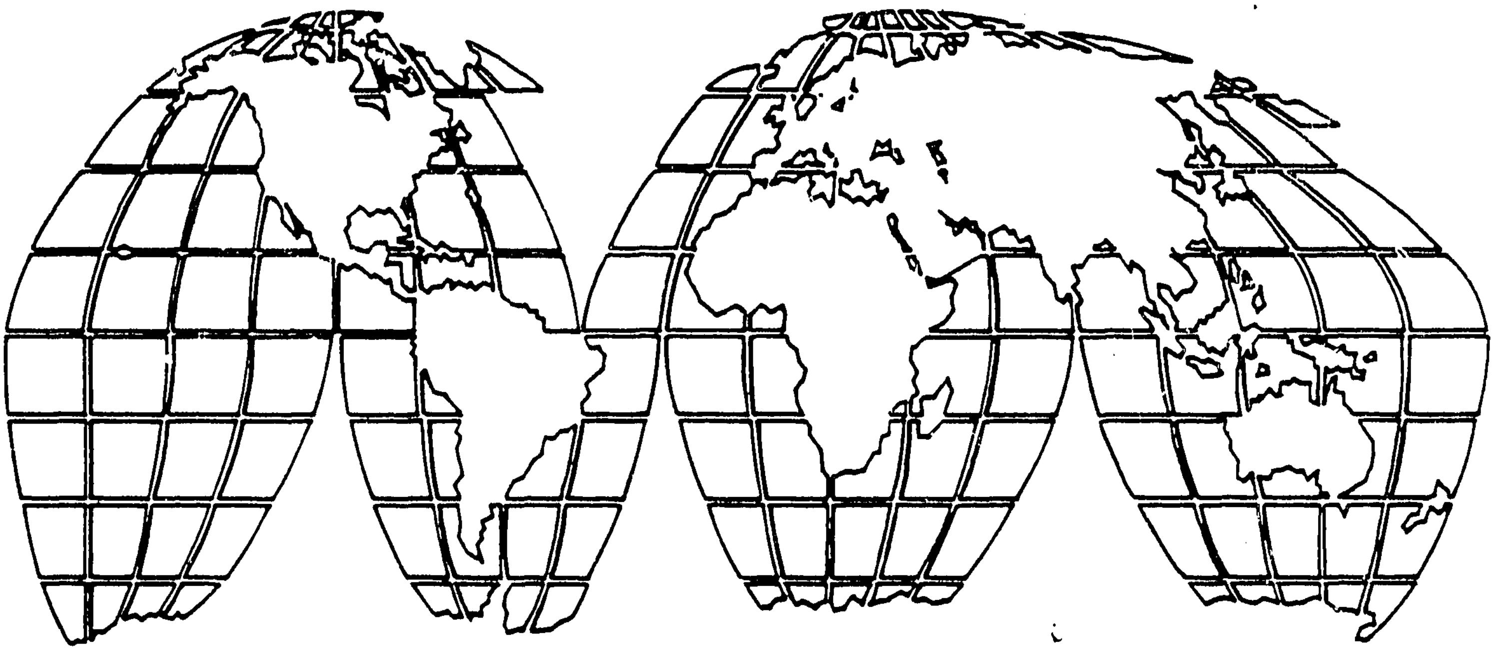
A.I.D. EVALUATION OCCASIONAL PAPER NO. 21

A.I.D. MICROENTERPRISE STOCK-TAKING: SENEGAL FIELD ASSESSMENT



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MICROENTERPRISE STOCK-TAKING: THE COMMUNITY AND ENTERPRISE DEVELOPMENT PROJECT KAOLACK, SENEGAL

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by

Dennis De Santis, Team Leader
(Development Alternatives, Inc.)

Barbara Howald
(Development Alternatives, Inc.)

Steve Sposato
(Agency for International Development)

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Development Alternatives, Inc. (DAI) and
Robert R. Nathan Associates, Inc. (RRNA)

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FOREWORD

During 1988 and 1989, A.I.D. undertook a major stock-taking of its experience in microenterprise development. The stock-taking examined differing approaches and techniques that have been used in efforts to assist microenterprises, including alternative institutional delivery mechanisms. The study was designed to identify the patterns of A.I.D. project interventions that generate success, with the goal of establishing which were the most successful programs, institutions, and delivery techniques. It required an examination of the different types of microenterprises and of the way their problems differ, and an analysis of A.I.D. project approaches, to see which work best under which conditions.

The stock-taking included a conceptual overview paper of published evaluations that identified many factors that are important to project success. It also developed a conceptual framework for analyzing the types of problems microentrepreneurs face.

The stock-taking included field assessments of A.I.D. microenterprise assistance projects in 10 countries. These assessments provided an excellent opportunity to examine in a systematic, consistent manner a large number of project approaches operating under a variety of economic conditions.

The final part of the stock-taking was a synthesis, which pulled together the findings of the conceptual overview paper and the field assessments to develop lessons learned and recommendations for microenterprise assistance programs.

Senegal was one of the 10 countries examined in the field assessments, and the assessment focused on the Senegal Community and Enterprise Development Project. This assessment provides interesting insights on one approach to promoting microenterprise development. We think that those who are working on microenterprise programs in Washington and in the field will be able to draw on the findings of this report to help in the planning, implementation, and evaluation of other microenterprise programs.

Janet Ballantyne
Associate Assistant Administrator
Center for Development Information and Evaluation
Agency for International Development
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SUMMARY

The Community and Enterprise Development Project is designed to assist the government of Senegal in meeting the basic objectives of economic stabilization and food self-sufficiency. The goal is to promote progressive decontrol and commercialization of agricultural production by enabling local village organizations and small-scale entrepreneurs to plan, manage and continue their own economic development. The project is located in the Sine Saloum Region, and centered in Kaolack.

Senegal, located in Western Africa, exhibits most of the same problems experienced by neighboring countries suffering from unstable rainfall and drought conditions during the 1970s and early 1980s. Politically, it is distinguished from many African countries by its stable multi-party democracy. The opposition is vocal, but the democracy is under no threat of change for the foreseeable future. The population of six million is largely rural, with per capita income estimated at $400 per year. Services, industry and agriculture, contribute 53, 24 and 22 percent, respectively, to the GDP. Exports are mostly agricultural, though phosphates and petroleum products figure as well. Imports, which come primarily from France, are diverse manufactured goods, crude petroleum and various food products. Balance of payments problems have persisted for 10 years.

Good rains have contributed to a four percent growth rate over the past three years. In 1986 the Government of Senegal undertook a major structural adjustment program; it is still too early to judge the effects. Removal of some commodity price supports and urban industry supports will free up the market, but will create some short-term employment problems. Formal wage employment is small compared to the total population. The government is moving out of some industrial parastatals, and maintaining its interest in others. The microenterprise sector is largely unregulated, and has very little access to bank credit.

Senegal, as a member of the West African Monetary Union, is in the Financial Community of Africa (CFA) franc currency zone. The Senegalese Franc (FCFA) is linked to the French franc and has guaranteed convertibility. The commercial banks face a fixed interest rate ceiling, a lack of liquidity, and hold many non-performing loans. These characteristics, resulting from government of Senegal deficit financing, are being addressed by numerous International Monetary Fund (IMF) and World Bank inspired reforms. Short-term loans for commercial trading are available, and a small amount of short- to medium-term capital loans are made. Loans to microenterprises are almost non-existent; they are also effectively excluded from deposit or savings activity.

A.I.D. has a well-defined private sector strategy designed to stimulate economic growth which supports the Government of Senegal's efforts to move toward an economy driven by private decision-making in a market-driven environment. The government of Senegal's New Agricultural Policy seeks to restore domestic and external financing equilibrium; improve the overall efficiency of investment; and stimulate increases in agricultural production. This policy proposes to reach these goals by 1) reducing the role of government in rural development agencies, 2)

improving efficiency in the supply of agricultural inputs, 3) developing alternative production strategies, 4) increasing rural development financing, and 5) promoting environmental protection.

In Senegal, the amount of donor support for private sector development is growing. The World Bank has initiated the Industrial Sector Restructuring Project, and provides infrastructure support to the Centre Africain des Etudes Superieures en Gestion. The United Nations Development Program and International Labor Organization (UNDP/ILO) operates an entrepreneurial training program, and the Canadian, French, and German assistance provides training programs and scholarships to the private sector.

The A.I.D. Community and Enterprise Development Project administers a $600,000 loan fund, that is expected to emerge at the end of the project as a self-sustaining credit institution. The project trains its own staff, and provides limited technical assistance to the loan clients. The Director and two Assistant Directors approve loans, manage the business advisory and loan marketing efforts, process loans, and supervise follow-up activities. Seven loan advisors are located in offices throughout the regions. The Advisors participate in a bonus system, in addition to their salaries, based on the number of repaid loans. This system encourages close client contact, and improves loan repayment performance.

A Credit Committee approves loans on a monthly basis. Loan conditions include a 100 percent collateral requirement and acceptable cash flow and profitability levels.

The original target market for the loan fund has been enlarged since the project began to include non-agricultural enterprises. The project has thus far made 315 loans to 241 enterprises. Of the 104 loans that have come due, most were paid on time or early, or rescheduled, and only 3% have defaulted. There are a number of repeat borrowers. Loans are used for working capital, equipment or both. Loans are both short- and medium-term, at an effective rate of 24 percent (2 percent per month on a declining balance).

The impact of credit on the enterprises, according to the borrowers, is increased stock, efficiency, equipment, number of clients, improved management, housing for employees, and increased employment.

Over 100 borrowers' profitability figures were studied. Profits are up substantially in all sectors, though it is hard to say whether this is because of the credit or generally good economic conditions. Credit plays a substantial role in the increased profitability, though to what extent cannot be determined. Higher rates of return on assets were noted for the smallest firms for a number of reasons. Among them are the suspected use of family members as unpaid labor, the generally lower administrative costs of smaller enterprises, and poor financial reporting.

The Private Voluntary Organization component seeks to provide multiple services to village level organizations, via the intermediation of local private organizations. The process of affiliating the current private voluntary organization partners was a long one. Each private voluntary organization proposal was thoroughly reviewed by the management unit, approved by a chain of government of

Senegal offices, and reviewed by the National Project Committee in Dakar, composed of government of Senegal and A.I.D. personnel. Currently, eight PVOs service 55 client village organizations. All village organizations project selections were made in the course of the private voluntary organization selection, no new village organizations were added. Private voluntary organizations received institutional grants, and managed the loans made to their village organizations. Private voluntary organizations component personnel is limited to a Director and a Training Officer, and its accounting service is assured by the management unit. Other activities undertaken by the component are literacy training, and training in credit management for the participating private voluntary organization staffs.

Since late 1986, 136 loans have been made to the village organizations projects. Most repayments are just beginning to come due. Loans were originally limited to livestock fattening or gardening, and are currently only slightly more diversified. Little economic impact of the credit has been seen to date, though this is understandable, given the short time elapsed and the small size of the activities. Some village organizations may not use profits for business expansion, but for community projects. Few new jobs are created as a result of village lending, since members simply increase the scale of their activities. An increase in the villagers' level of confidence has been noted across the board.

FACTORS AFFECTING PROJECT PERFORMANCE

The performance and impact of the Community and Enterprise Development Project have been influenced by the following factors:

SMALL-SCALE ENTERPRISE COMPONENT

(1) The project design calls for a sustainable credit institution to be in place at the end of the project.

(2) Project personnel implemented mid-course design corrections that enabled them to streamline the delivery structure and improve the overall efficiency of the project.

(3) The project targeted a market that was not being served by formal or informal financial intermediaries.

(4) The project, while appropriately using the minimalist approach in providing technical assistance to clients, has provided ongoing training to local project staff.

(5) The business environment during the project life has generally been favorable.

(6) The project has decentralized the lending structure, ensuring good pre-loan client knowledge, close client supervision, and immediate client follow-up for non-payment.

(7) The project has implemented sound businesslike lending practices.

(8) The project, because of Senegalese legal constraints, has excluded provision of savings or deposit facilities needed in the rural economy. The inclusion of deposit capabilities would create a more viable financial institution and capitalize the credit fund.

PRIVATE VOLUNTARY ORGANIZATION COMPONENT

(1) The PVO component of the project is administratively complex, and has multiple objectives. Credit is only a small part of the overall activities of this component.

(2) Community-based PVOs lack the financial expertise to administer credit projects, requiring a high degree of private voluntary organization staff training in business administration and credit management. Private voluntary organizations capabilities are stronger in the social and community development areas.

LESSONS LEARNED

SMALL-SCALE ENTERPRISE COMPONENT

(1) The lending project must begin with the goal of building a sustainable financial institution and work towards that goal over the long-term.

(2) The lending project must limit and prioritize objectives to assure that objectives are congruent and not mutually exclusive.

(3) Lending projects should have socio-economic impact indicators built into project design.

(4) Lending projects should be flexible enough to allow for mid-course redesign to better attain objectives or adapt to changing economic environment.

(5) Lending projects should have simple, direct, and decentralized loan delivery systems to work closely with the small-scale borrower.

(6) Lending projects should not try to direct economic activity through credit.

(7) Lending projects should loan at interest rates that at a minimum cover lender costs or match market rates.

(8) Lending projects should operate in a businesslike manner by making secured loans, at market interest rates, to qualified borrowers with economically viable projects.

(9) Lending projects operating in generally good economic environments should have excellent loan portfolios.

(10) Lending projects servicing the larger sized microenterprises tend to create more new employment than smaller sized microenterprises which tend to reduce underemployment.

PRIVATE VOLUNTARY COMPONENT

(1) Group solidarity guarantees can be as effective as financial guarantees in assuring loan repayment, if the group has strong social and cultural ties.

(2) Economic activity for village groups cannot be directed by the availability of credit.

(3) If a lending project must work through PVOs, final responsibility for loan approvals and loan monitoring must rest with the real lender.

(4) If Village Organizations are to be regarded as promoters of commercially viable businesses, they should be expected to perform in a profitable, sustainable manner.

(5) Profits from activities of Village Organizations tend to be reinvested in community projects.

(6) Village Organization projects do not create new employment, but the tendency is to redefine or expand existing employment in the village.

PROJECT DATA SHEET

1. Country: Senegal

2. Project Title: Community & Enterprise Development

3. Project Number: 685-0260

4. Funding: $9 million

5. Life of Project: 6 years

6. Project Paper Authorized: September 1983

7. Cooperative Agreement Signed: August 1985

8. Implementing Contractors:
   a. New Transcentury Foundation
   b. Management Systems International

9. Project Completion Date: June 30, 1990 (extended)

10. Operating region: Kaolack, Sine Saloum

11. Project Purposes:
    a. To enable village organizations to carry out agricultural production, food processing and preservation, and soil and energy conservation projects on their own.

    b. To assist rural entrepreneurs and enterprises to support agriculture and sustain their own growth.

GLOSSARY

AEPRP	Africa Economic Policy Reform Grant
BCEAO	Banque Centrale des Etats de l'Afrique de l'Ouest
BNDS	Banque National de Développement du Senegal
CCCE	Caisse Central de Coopération Economique
C&ED	Community and Enterprise Development Project
CESAG	Centre Africain d'Etudes Superieurs en Gestion
CICES	Centre International pour le Commerce Exterior du Senegal
CIDA	Canadian International Development Agency
ESF	Economic Support Program Grant
FCFA	Franc Communauté Financière de l'Afrique ($1 = 300 FCFA)
FY	Fiscal Year
GDP	Gross Domestic Product
GNP	Gross National Product
GOS	Government of Senegal
IBRD	International Bank for Reconstruction & Development
ILO	International Labor Organization
IMF	International Monetary Fund
MSI	Management Systems International
MU	Management Unit
NAP	New Agricultural Policy
NGO	Non-Governmental Organization
NTF	New Transcentury Foundation
OEF	Overseas Education Fund
ONFP	Office National de Formation Professionelle

PADEC	Pan Africain pour le Développement Communautaire
PVO	Private Voluntary Organization
SBAU	Small Business Advisory Unit
SSE	Small Scale Enterprise
UNDP	United Nations Development Program
A.I.D.	United States Agency for International Development
VEP	Village Education Program
VO	Village Organization
WAMU	West African Monetary Union

1. COUNTRY SETTING

Senegal lies on the bulge of Western Africa, bordered by the Atlantic Ocean, Mauritania, Mali, Guinea and Guinea-Bissau. The Gambia penetrates more than 320 km. (200 miles) into Senegal, nearly bisecting the country. Senegal has four major rivers, the Senegal, Saloum, Gambia, and Cassamance, each navigable by ocean going vessels for a substantial distance inland.

Much of Senegal lies in the Sahel zone, distinguished from the Sahara by having regular but short rainy seasons. These rains provide grazing areas for camels, cattle, sheep, and goats but are insufficient for intensive cultivation without irrigation. The coast has a different climate, being more humid and cooler. The southern part of Senegal, beginning with the Gambia, is a transitional zone to the equatorial region with a longer rainy season and more vegetation.

Climate has been a major factor in the settlement and development of Senegal. The demography, vegetation and animal population have changed dramatically through the centuries as the Sahara Desert became drier, and continued its southern expansion. Drought has been a continuing problem throughout the 1970s and early 1980s. Previously normal patterns of rainfall have only occurred since 1985. To counter the reoccurring problems of drought, Senegal has attempted to harness the potential of the river valleys. Human overexploitation and overgrazing has, however, contributed to the problem of ecological degradation in the northern and central parts of the country.

Soils are sandy throughout much of the country with heavier gray clay soils being found in the south. Phosphate is the principal mineral resource, mined near Tivaouane in the Thies region. Peat deposits have been identified in the Niayes.

Senegal is one of the few countries in Africa with an active multi-party democracy. Senegal gained its independence from the French colonial empire in April 1960. Its first President, Leopold Senghor, a previous member of the French National Assembly, was a highly educated and dynamic leader with strong ties to France. Senghor's party, the Socialist Party, has continued its rule since independence despite an active opposition with seats in the National Assembly.

Elections held in February 1988 were contested by the opposition and led to a state of emergency. Since the opposition does not seriously question the Socialist Party's victory, only its magnitude, a return to tranquility would seem to follow from the recent conciliatory attitude shown by the current president, Diouf.

The population of Senegal is approximately 6.4 million people, with seventy percent living in rural areas. The Wolof are the major ethnic group (34 percent), followed by Serer (19 percent), Diola and Toucouleur (14 percent each), Fulani, Malinke and other smaller groups.

Senegal has a per capita income of about $400 ranking among the least developed countries according to the United Nations classification. Agriculture accounts for approximately 22 percent of GDP, industry 24 percent, and services 53 percent. Senegal's principal exports in order of importance include: fish products, phosphates, petroleum products, groundnut oil, raw cotton, and groundnuts.

Imports in order of importance consisted of: crude petroleum, manufactured goods, cereals and products, machinery, transport equipment, vehicles, electric machinery, dairy, sugar and tobacco. A plurality of Senegal's imports come from France, over 50 percent from the European Community. Nigeria is a major trading partner, second only to France and followed by the United States and Thailand.

Senegal has had a persistent balance of payments deficit over the last decade resulting in part from an overvalued currency, as well as low world commodity prices (phosphates and groundnuts) and borrowing for major construction (dams) projects. Outstanding external public debt amounted to $2.4 million in 1986, equal to 21 percent of exports and private capital transfers.

In 1986, Senegal undertook a major structural adjustment program with the International Monetary Fund (IMF) and the World Bank. Aspects of this program include a New Industrial Policy, consisting of an economic liberalization, reducing external protection and internal controls, and a New Agricultural Policy based on more private initiative. While it is still too early to judge the effects of these policies, the economy has grown at over 4 percent per annum over the last three years, due in large part to improved rainfall and the resulting increase in agricultural activity.

Senegal's government economic policies have been more balanced in their effect on rural and urban constituencies than elsewhere in Africa. High agricultural price supports for groundnuts inherited from the French, have offset other policies favoring urban groups.

In recent years low world prices for groundnuts and other agricultural commodities have made this policy of price supports more costly. As a consequence the high level of price supports has been reduced and further reductions are scheduled. Under the New Industrial Policy, urban industries will also lose some of their protection from imports. Consumer prices will be favorably affected by this opening of the Senegalese market. However, the employment situation is worsening in the short term as these structural changes are implemented. The Government of Senegal was recently pressured to address increasing urban tensions by lowering the official rice price, largely benefitting urban consumers.

While industry is relatively well developed in Senegal compared to most Sub-Saharan African countries, the number of people in the formal wage sector is small compared to the total economically active population.

The microenterprise sector is largely unregulated. Few firms are "registered" and fewer still pay taxes. Entry to the sector is unimpeded and open as well to foreigners and Senegalese alike. The sector has almost no access to bank credit. Firms which grow out of the microenterprise sector will face a serious cost hurdle when joining the formal sector with eventual registration and tax consequences.

Senegal is a member of the West African Monetary Union (WAMU), and headquarters of the Union's central bank the Central Bank of West African States (BCEAO). Fixed exchange rates with the French Franc for the zone's currency, fixed interest rates, and guaranteed convertibility characterize the currency zone. Monetary policy is the province of the Board of Governors of the BCEAO. Growth in national money supply is based on two parameters: (1) the net foreign reserve position of the country; (2) its anticipated economic growth. Money supply growth and hence credit ceilings are differentiated by member country based on these criteria.

Many of the major banks in Senegal suffer from a lack of liquidity and non-performing loans. This dual problem results in large part from government deficit financing. Non-performing industrial loans, both to government parastatals, as well as private business, have further aggravated the problem. The International Monetary Fund and World Bank are seeking to address these problems through a series of reforms and a new injection of liquidity.

The banking practices in Senegal are characterized by short-term lending for commercial trading. Such lending has a high rate of profit and little risk as Letters of Credit are usually guaranteed by the goods which they finance and often significant additional collateral is required. A small amount of short- to medium-term business lending exists. Because the funds for such lending are rediscounted by the Central Bank, these loans are often highly political. Loans for microenterprises are almost non-existent. The lack of deposit facilities for small savers and loans to microenterprise constitutes a strong bias against them by the financial institutions in favor of larger urban based business.

2. DESCRIPTION OF A.I.D. PROJECT ACTIVITIES IN SUPPORT OF THE PRIVATE SECTOR

A.I.D. has a well defined private sector strategy in Senegal which is the keystone of an assistance program designed to stimulate economic growth. The primary goal calls for a positive per capita rate of increase in GDP. The strategy supports Senegal's efforts to move from a state-controlled economy to one increasingly driven by private decision-making in a market-driven environment. The overall assistance program and the private sector development strategy support the Government of Senegal's New Agricultural Policy. This policy calls for: 1) restoring domestic and external financial equilibrium, 2) improving the overall efficiency of investment, and 3) stimulating increases in agricultural production. The policy proposes to reach the above goals by: 1) reduction of the role of Government of Senegal rural development agencies, 2) increased efficiency in the supply of agricultural inputs, 3) alternative production strategies, 4) increased financing for rural development, and 5) environmental protection.

A.I.D. support to the Government of Senegal in the implementation of the New Agricultural Policy concentrates on support for: 1) structural reform, 2) alleviation of institutional and infrastructure constraints, 3) income generation and environmental protection, and 4) rural health programs. In addition to the Community and Enterprise Development Project, this support is provided through the following programs and projects as described in the Private Sector Strategy, prepared by A.I.D. in March 1988. See Appendix B for details of A.I.D. and other donor support to the private sector.

3. FINDINGS AND ANALYSIS

3.1 Description of Project Organization

The Community and Enterprise Development Project is designed to assist the government of Senegal to meet the basic objectives of economic stabilization and food self-sufficiency. The goal is to promote progressive decontrol and commercialization of agricultural production by enabling local village organizations and small-scale entrepreneurs to plan, manage, and continue their own economic development. The project is located in Kaoloack and Fatick Regions, of Senegal, (formerly the Sine Saloum Region), and is headquartered in the capital, Kaolack.

The project purposes are:

1) To enable village organizations to carry out agricultural production, food processing and preservation, and soil and energy conservation projects on their own.

2) To assist rural entrepreneurs and enterprises to support agriculture and manage and sustain their own growth.

The basic principle of this project--that it be funded through and implemented by a non-governmental organization--is congruent with the long-term goals and objectives of the Government of Senegal and A.I.D. The funding level is $9 million over a six year period.

The project paper was authorized in September 1983; the Project Agreement signed in January 1984; the Cooperative Agreement with the New Transcentury Foundation signed in August 1985; and the arrival of the implementation team in September 1985. The first loans were made in October 1986.

3.2 Management Unit

Primary project implementation is the responsibility of the Management Unit, located in Kaolack, and reporting to the Project Development Office at A.I.D./Dakar. The unit is managed by The New Transcentury Foundation, and is responsible for the overall management and administration of the project including the reporting, disbursements from A.I.D., and coordination of the Small-Scale Enterprise component; and Private Voluntary Organization component. The unit is also responsible for the supervision of credit in the Small-Scale Enterprise component; the awarding of grants in the Private Voluntary Organization component; and overall staff development.

3.3 The Small-Scale Enterprise Component

The Small-Scale Enterprise (SSE) component is responsible for administering the $600,000 loan fund, including the development of the lending procedures, identification of clients, and supervision of the loans. The SSE component is expected to emerge as, a self-sustaining credit institution at the end of the project. In addition, the SSE component incorporates a business advisory arm of the project, as well as provides training for its staff.

In the original project design, the SSE was to work in conjunction with the Small Business Advisory Unit (SBAU), to provide credit to enterprises that had received technical assistance from the SBAU. Project personnel determined that the biggest constraint faced by the enterprises was the lack of credit and opted instead for a reduced level of technical assistance in favor of a higher level of credit. Enterprises receive a minimal amount of technical assistance through the Loan Advisors. This assistance is usually in the loan application process, and determines if the enterprise can generate sufficient cash flow to meet the loan payments. Adopting the minimalist-credit approach, reduced administrative costs and moved the project closer to financial self-sustainability.

The SSE component also enlarged its target market for credit to include non-agricultural enterprises. It was felt that the target market as outlined in the Project Paper would have been too restrictive jeopardizing the prospects for sustainability of the fund. The inclusion of trading enterprises reduced risks by diversifying the loan portfolio.

There are seven Loan Advisors, whose primary responsibilities include the identification of the clients, the preparation of the loan application with the client, the supervision of loans, and the provision of technical assistance to the loan applicants. Three Loan Advisors are found in Kaolack, divided into three zones, North, Center, and South, and one Loan Advisor each in the regional centers of Fatick, Sokome, Khoughel, and Kaffrine. In addition to their salary the Loan Advisors are eligible for a bonus of 2 percent per year of principal borrowed if paid back on time. Defaults are penalized at 10 percent of amount owed. Defaults only affect the Loan Advisor's bonus, not their salary. The system is well received by the Loan Advisors and promotes the timely collection of the loans.

The close contact the Loan Advisors have with clients helps to reduce the default rate. The advisors are pro-active, contacting the borrower when a payment is overdue. The Advisors understand the local business environment, and know their clients' businesses, reducing time needed to evaluate loan requests.

A Credit Committee meets monthly to approve loans. It is made up of the projects' officers, and the seven Loan Advisors. The project officers must all agree before a loan is approved. Loan approval rates are high because many applications are weeded out before they reach the Credit Committee. To be approved a loan application must show that the proposed activity is profitable and generates sufficient cash flow to cover the principal and interest payments. There must be sufficient collateral to guarantee the loan at 100 percent in the form of buildings, equipments, or vehicles. These assets must be notarized at a local lawyer's office. This provides a legal recourse for the project, but this method is significantly cheaper than registering the assets with a bank. Stock of raw materials or inventory are not accepted as collateral. A system of automatic monthly salary deposits had been used as collateral, but this system is being phased out.

The credit fund, capitalized at $600,000, administered by the SSE component is on deposit at the National Development Bank of Senegal in Kaolack. Once the loan is approved, a check, approved by the management unit and drawn on the account at the National Development Bank of Senegal, is issued to the borrower. If equipment is being purchased, the check may be written directly to the supplier of the equipment, usually an importer in Kaolack. All loans thus far have been for 15 months or less at an interest rate of two percent per month on a declining balance. The nominal interest rate for a one year loan is 24 percent.

The client reimburses the credit in equal monthly payments over the life of the loan, as indicated in the loan contract in one of three ways. He may reimburse the SSE office directly; make payments to the Loan Advisor, who issues a receipt and deposits the money weekly at the SSE office; or make a payment directly to the bank in the name of the project. The project is currently involved in strengthening management information systems, and controls on the actual cash flow to deter any irregularities.

3.3.1 Impact of Small-Scale Enterprise Credit

Through October 1988, the SSE component has made 315 loans to 241 enterprises, totaling 381 million FCFA ($1.27 million). Through October 1988, 104 loans to 96 enterprises totaling 129 million FCFA ($431,775) have been repaid. There are 211 loans outstanding totaling 25 million FCFA ($839,000). This information is summarized in the following table, Number of Loans.

Table 1. Number of SSE Loans (10/30/88)

	Number	Enterprises[a]	Total FCFA (000,000)	Total $US (000)
Total all loans:	315	241	381	1,270
Paid loans:	104	96	130	431
Outstanding loans:	211	90	251	839

[a]Repeat borrowers are not counted as different enterprises.

Of the 104 loans that have come due, 63 percent were paid on time, 25 percent were paid early, nine percent were paid late (rescheduled), and three percent were in default. The project asks the borrowers to complete an evaluation questionnaire when the loan is paid back. The responses are entered into the project data base, which has supplied all of the figures reported.

To date 59 enterprises have accounted for 133 of the loans.

47 have borrowed twice	=	94
10 have borrowed 3 times	=	30
1 has borrowed 4 times	=	4
1 has borrowed 5 times	=	5
-----		----
59		133

Repeat borrowers represent a good risk for the project, since they have already paid back at least one loan. The high number of repeat borrowers early in the project indicates that there is a large unfilled, pent-up demand for credit. While the end use of credit is difficult to document, the evaluation questionnaires completed by the 104 enterprises that have paid back the loans indicate that:

-- 72 percent used the loan as working capital.

-- 15 percent used the loan to buy equipment.

-- 13 percent divided the loan between working capital and equipment.

Short-term working capital loans reduce lenders' costs and risks as compared to capital assets loans. Working capital loans require less analysis as to project feasibility, generate returns faster, are made on a short-term basis, and are less dependent on external factors. They are also usually for smaller amounts, allowing a greater number of clients to be served.

Loan size ranged from 94,000 FCFA ($313) to 5 million FCFA ($16,600). The average loan size is 1.2 million FCFA ($4,000).

Table 2. Small-Scale Enterprise Loan Duration

Term	Number of Loans	% of Loans
6 months or less	81	26%
7-12 months	226	72%
13-15 months	8	2%
Total	315	100

The longest loan term was for 15 months. The vast majority are for 12 months. The short-term nature of the lending helps to keep the delinquency rate low, and to turn the credit fund over quickly.

Table 3. Small-Scale Enterprise Loans by Sector

Type of Enterprise	# of Loans Made	% of Loans Made	% of Funds Loaned
Agriculture	104	33%	27%
Commerce	118	37%	40%
Services	34	19%	23%
Manufacturing	59	11%	10%
Total	315	100	100

Included in the agriculture sector are enterprises in agricultural production, commerce of agricultural products, fisheries, and livestock production. Commerce includes general retail store, hardware stores, and pharmacies. Services consist of construction, transport, tailors, and jewelers; and manufacturing consists of food processing, carpentry and mechanic/metal workers.

Of the 315 loans made, 140 or 45 percent were made to enterprises operating in the city of Kaolack, which the project defines as urban. The 55 percent of loans made outside of the city of Kaolack are defined as rural. Kaolack, the second largest city of Senegal, has a population of approximately 150,000, but has an agriculturally-based economy, and gives the impression of a rural environment.

Women-owned enterprises received eight percent of the loans. The majority of the women receiving loans are engaged in commerce. These are small and medium-sized enterprises operating in the Kaolack market. A few of the women-owned firms were classified in the services sector, and include mostly tailor shops or material dyeing. None of the loans to women-owned enterprises were in default or rescheduled.

Loans to commercial enterprises, originally excluded from the project, now play an important role, comprising 37 percent of loans and 40 percent of funds loaned. Virtually all of the women-owned enterprises also fall into this category. In this case, non-targeting enterprises by type of activity has improved impact on a desirable segment of the population.

Evidence that the credit project reaches the target low-income population is provided by the generally low educational levels of the clients:

Koranic School	56%
Primary Level	19%
Secondary Level	24%
University	1%

Koranic school can be from one to eight years and is based on a study of the Koran. It provides a basic literacy and numeracy.

Among the 104 loans that have come due, 42 percent of the borrowing enterprises claim to have created employment. The 44 enterprises have created a total of 176 jobs, 41 of them permanent, and 135 temporary or seasonal jobs. These 104 loans totaled $431,775. On the basis that 135 temporary jobs equal 68 permanent jobs (135/2), approximately 109 permanent jobs could be claimed as being created; one for each $3,961 loaned. The high number of seasonal jobs is due to the agricultural nature of the economy.

This same group of 104 borrowers used the evaluation questionnaire to report the following impacts on their businesses: (Percentages total more than 100 because of multiple responses).

-- 42 percent have increased their stock.

-- 42 percent have purchased additional equipment.

-- 14 percent have made improvements to the site of the enterprise.

-- 30 percent have noted an increase in the number of clients.

-- 17 percent have improved the management of their enterprise (e.g., introduction of bookkeeping).

-- 36 percent have cited other positive effects including:

  - increased efficiency in satisfying market demands in respect to quality, quantity, and timeliness;
  - purchase of the enterprise site;
  - rental of another outlet for the enterprise;
  - improvement in the relationship with the suppliers;
  - construction of a warehouse;
  - improved housing for employees; and
  - increased yields per hectare.

Nearly all of the above are indicators of an increased level of business activity, but not necessarily of increased profits. The purchase of stock, equipment, and improvements to the enterprise site indicate a greater cash flow, probably stemming from the loans. How this stock and equipment will be used, whether they are sustainable by the enterprise, and whether they generate increased profits are factors which are more indicative of lasting impact. The profitability of the borrowers is examined in the following section.

3.3.2 Financial Analysis of Project Borrowers

The following tables are compiled from data furnished by the project. The profit and asset figures are self-reported by the enterprise owners on the evaluation questionnaire completed when the loan was repaid. One hundred four borrowers completed the questionnaire. The tables compare average profits before and after the loan, by economic sector, and size of enterprise based on assets before the loan.

Table 4. Reported Profitability of Enterprises by Sector

Sector	$ Profits Before Loan	$ Profits After Loan	% Increase
Agriculture	513	743	45
Commerce	1,443	2,470	71
Manufacturing	696	1,280	84
Services	1,123	2,080	85
Total	3,775	6,573	74

Profits in all of the sectors are up substantially. How much of this increase is due to the use of the credit or due to generally good economic conditions is impossible to determine. The effects of inflation have also not been considered.

Project borrower size, as measured by average assets by quintile, range from an average of $1,566 for the smallest quintile, (quintile 1) to $70,000, for the largest quintile, (quintile 5). The following table provides average profitability by quintile before and after the loan.

Table 5. Reported Profitability of Enterprises by Size

Quintile	$ Profits Before Loan	$ Profits After Loan	% Increase
1	270	453	67
2	383	917	138
3	507	1,257	148
4	957	1,543	62
5	290	4,140	43
Total	2,407	8,310	59

The high profitability increases have to be explained by a combination of factors. The table was compiled from self-reported data collected from the enterprises. There may be a lack of consistency in the determination of the figures, or profits may be overstated. Most enterprises lack formal accounting procedures increasing the risk of reporting error. Generally good economic conditions must certainly be included as a factor in the profitability increases of the enterprises. The Kaolack and Fatick regions are dependent on agriculture. Senegal, and the two project regions in particular have experienced three good years of rainfall stimulating all sectors of the local economy. Inflation has been low for the past three years. However, the availability of credit to these enterprises had to play a significant role, even if the extent of that role cannot be precisely determined.

The following table gives average return on assets by quintile grouping before and after the loans.

Table 6. Average Assets and Average Return on Assets

Quintile	Average Assets	Average Return on Assets Before Loan	Average Return on Assets After Loan
1	1,567	17.3%	28.9%
2	4,590	8.4%	20.0%
3	8,443	6.0%	14.9%
4	18,443	5.2%	8.4%
5	69,043	4.2%	6.0%

Return on assets is the rate of declared profits to gross assets. The smaller firms (first and second quintile) have a significantly higher return on invested assets than the larger firms (upper three quintiles).

In addition to economic factors there are additional reporting factors which bias the results in favor of smaller enterprises. Since most of these have one employee who is also the owner and in cases of additional labor demand usually solicit the services of unpaid family labor, the return to labor is considered as a profit in these firms. On the contrary in the larger firms the return to labor is more often considered as a formal salary cost and consequently does not show up as a profit. This would be the case for the larger firms in the enterprise group as truckers and construction firms, where salaried labor is an important cost.

Another reporting factor which may be significant is hidden profits. To the extent that accounting practices hide profits and that there is a systematic bias in favor of the larger more sophisticated firms, profits in these latter may indeed be underestimated. It is unknown if underreporting of profits by larger firms was a problem.

These findings do not clearly point to any conclusions, except that all five size grouping reported a higher return on assets after the loans. The smaller enterprises reported the largest increase. Both service and manufacturing firms are prevalent at all levels of capitalization and it is not clear if the breakdown were done on this basis which would be the more profitable type of activity.

Retailing enterprises reporting a high return on assets indicate that the turnover rate of stock is high. Another factor may be that retailing enterprises tend to employ only family members, and do not account for labor costs, increasing profits.

While it does not appear possible to draw any firm economic conclusions from the data, the importance of letting the market decide both the equilibrium rate of interest and the allocation of capital would appear to be all the more warranted in these circumstances.

3.3.3 Sustainability of the Small-Scale Enterprise Credit Fund

The SSE Credit Fund has been making loans for a little over two years. The project reports that the fund is currently covering administrative costs for the regional office and the salaries of the Loan Advisors. Project costs for the administrative headquarters are not being covered. A sensitivity analysis using a number of variables for average loan size, interest rate, default rate, and number of loan advisors; coupled with actual costs of supporting regional offices and staff salaries indicate that there are several scenarios in which the fund could be self-sustaining. A consultant from MSI arrived in November to refine the sensitivity analysis and determine the most likely scenario.

Most scenarios indicate that the loan fund would be self-sustainable with average loan size between $1,500 to $2,000, an effective interest rate of 24 percent, a default rate of three percent, and eight loan advisors with between 65 and 80 loans each. Using these basic ranges for the variables still presents several different scenarics in regard to the degree of sustainability. However, the variables used are close enough to actual figures achieved by the project to indicate that sustainability is possible. The questions of when and to what degree remain to be precisely determined.

A more serious question involves the legal structure of the fund at the end of the project. This is currently being examined by the project and several different types of legal structures are being investigated. A mechanism must be found that complies with Senegalese law, conforms to A.I.D. criteria, and privitizes the capital assets of the fund.

3.4 Private Voluntary Organization Component

The major objectives of the private voluntary organization component of the project are: 1) to strengthen Kaolack area Village Organizations' (VOs) capabilities with respect to the selection and implementation of appropriate project activities; 2) the identification of sources of technical assistance; and 3) to increase the level of financial independence (of the village organization) by engaging in projects that are technically sound and commercially profitable. The project, under the assumption that local private voluntary organizations are appropriate vehicles to assist the village organizations, provide the private voluntary organizations with technical assistance, grants, and funds to make loans to village organizations.

The Private Voluntary Organization component is administratively complex, with multiple objectives that have undergone a number of refinements. The project experienced difficulties in attracting local PVOs willing to adjust to the perceived rigidities of early project policies, guidelines and procedures. This led to a slower than expected affiliation of PVOs to the project. Nevertheless, eight private voluntary organizations eventually were approved. They have a client base of 55 village organizations now participating in the project. The following table lists the local PVOs, number of client village organizations, and information on loans made by the private voluntary organizations.

Table 7. Private Voluntary Organization Component Lending as of October 24, 1988

Local PVO	Number of VOs	Number of Loans	$ Total Funds Loaned	Number of Loans Repaid	Number of Loans Late
ABACED	2	6	103,345	0	0
Africare	13	26	37,714	0	0
AISA/IARA	3	9	30,595	0	0
Caritas Dakar	5	15	82,880	0	0
Caritas Senegal	8	19	124,982	8	1
OEF-MFR	18	38	93,781	5	4*
PADEC	3	14	96,140	4	0
SOS Sahel	3	9	22,747	0	0
TOTAL	55	136	586,184	17	5

* The four late loans were one day late at the preparation of the project figures. Payments are credited on the day that they are received at the bank. Bank notification (to CEDP) time lag is unknown, but a couple of days is assumed.

Source: CEDP 1988.

The PVOs submit requests to the project for institutional development grants and credit "packages" to be used for villager organization loans. PVOs selected for project assistance must be approved by the National Projects Committee. The Committee, with A.I.D. representation, is composed of Senegalese government officials. Before reaching the National Committee the proposals must be approved by a chain of government officials, at the local, district, and regional levels. After the agreement with the private voluntary organization has been signed no new village organizations are added. Grants, as well as credit, are made available to village organizations for infrastructure development.

Institutional grants to PVOs are used to provide the proper training of personnel and for overhead costs. A large training program for PVO personnel sought to enable the PVO personnel to develop, implement, manage and evaluate credit projects. Project staff do not work directly with the villager organizations. Their work is with the private voluntary organizations. All village organizations contact is done by the PVO staff. Many village organizations have worked with their "parent" PVO for a number of years, while a few are relatively young.

PVO loans to villager organizations were originally limited to off-season gardening or livestock fattening, activities seen by the villager organizations as too limited. Many village organizations had other ideas for projects which they believed were more profitable and had a potentially good market in their areas. These did not fall within the narrow guidelines, and were therefore rejected and replaced by one of the two allowed options. These two were not always appropriate choices. (For example, the salinity of the water in and around Kaolack is too high for many gardening projects to be successful, as several VOs have seen, despite technical advice to the contrary at the outset.) As seen below, VO projects are currently only slightly more diversified.

Table 8. Private Voluntary Organization Loans By Sector as of October 24, 1988

Activity	Number of Loans	% Loans	$ Total Loan Amounts	% Funds Loaned
Gardening	56	41	260,113	44
Cattle fattening	48	35	219,076	38
Sheep fattening	18	13	38,095	6
Fishing	5	4	46,667	8
Cereal Bank	5	4	9,999	2
Chicken raising	4	3	12,234	2
TOTAL	136	100	586,184	100

Source: CEDP 1988.

Credit disbursements are made directly to the village organizations (except in the case of Africare), which were required to open bank accounts, through which all loan transactions are made. Africare hold funds, and distributes monies or goods in kind to its villager organizations on an as-needed basis--an arrangement that CEDP personnel deem both complicated and not really "credit" as experienced by other VOs. Both short- and medium-term loans are made, at interest rates from 11 to 15 percent. The vast majority of loans were made at 12 percent. As villager organizations generally do not own land, real property collateral requirements are replaced by "group solidarity" guarantees.

General Loan Information

Average amount loaned per Village:	$10,658
Average Loan Size:	$ 4,310
Largest Loan:	$33,137
Smallest Loan:	$ 33

No data on the use of funds was available to the report writers, as this information is primarily kept by the PVOs, but verbal reports indicate that the vast majority of funds were used for working capital.

In terms of administration, the management unit has more difficulties with the US based PVOs. The recently conducted PVO audit found that the US PVOs (1) need to conform to their own home office accounting practices, which are not necessarily compatible with the Projects, and that (2) staff is not available in the local office to track the funds as they should be tracked. Local PVOs exhibit neither of these problems to the degree as Overseas Education Fund and Africare.

Repeat credits to village organizations are made according to the project's economic performance and repayment of the first loan. However, if a village organizations wishes to obtain credit for the same project activity at the same credit level as its first loan, it is required to contribute 15 percent of the investment cost. Thus, this lending procedure works in reverse from traditional lending in which the enterprise qualifies for larger and larger loans. In this case the village organization project is restricted to 85 percent of its previous loan. Expanded activities are not subject to this restriction.

As mentioned above, the participating PVO personnel received training in credit management, financial management, and budgeting. Individual PVOs organize continued training for their personnel, as well. Though the effectiveness of the PVO staffs in credit management has been questioned, particularly those who believe that the staffs lack appropriate backgrounds for the task, the Management Unit has been on the whole satisfied with the performance of the PVO staffs and PVO administration of the loans.

Another important aspect of the overall village organization development component is the Village Education Programs (VEP). Literacy and numeracy training of trainers has been completed, the literacy trainers manual is in the last stages before printing, the village trainers were identified and trained, and many programs have begun. One Pan Africain pour le Developpement Communautaire villager organization visited, has identified and begun training of a village member as a village health aide.

3.5 Impact of Credit on Village Organizations

The disbursements of credits to the VOs began only in late 1986, and so only a small percentage of the total loans have come due and been repaid. Measurable economic impact of these projects has not yet occurred. Only one of these loans is listed as late, and the number of loans which have been paid early appears to be high. Evaluations of the 55 participating VOs are underway, though detailed information on profitability of the activities is not available. Four VOs working with two PVOs in a 40 km radius of Kaolack were visited in the course of the study, listed below:

Table 9. Loans to Village Organizations Visited

Term	$ Amount	Status	Term	Activity
Keur Mbouky: 40 members (all men)				
Medium:	5,620		2/87 - 3/90	cattle fattening
Short:	10,830	PAID	6/87 - 6/88	" "
Medium:	417		12/87 - 6/90	gardening
Short:	6,667		6/88 - 6/98	cattle fattening
Short:	7,500		6/88 - 6/89	" "
Keur Ismaila: 40 members (15 women, 25 men)				
Medium:	6,103		3/87 - 3/90	cattle fattening
Short:	10,143	PAID	6/87 - 6/88	" "
Short:	6,334	PAID	3/88 - 3/89	" "
Short:	10,000		8/88 - 8/89	" "
Medium:	2,103		2/88 - 6/90	gardening
Nette Lougol: 40 members (all men)				
Medium:	3,270		3/87 - 3/90	cattle fattening
Short:	10,313	PAID	6/87 - 6/88	" "
Short:	5,000		3/88 - 3/89	" "
Short:	5,830		6/88 - 6/89	" "
Takkouliggey I: 20 members (all men)				
Medium:	8,743		11/87 - 6/90	gardening
Short:	21,773		1/87 -11/88	"
Short:	17,030		7/88 - 7/89	"

The village organizations visited showed, however, that for these PVOs at least, loans were on the whole being repaid and additional loans were being granted. Nine short-term and five medium-term loans were granted to the PADEC VOs. Four of the short term loans had been repaid, one far in advance. The ABACED project has two short and one medium term loans outstanding.

When asked about the use of the profits, the village organization spokesperson noted a number of uses, though none directly related to business expansion for the time being. Keur Ismaila looks to expand its cattle raising infrastructures in the future. Historically however, Keur Ismaila has used profits from its VO activities for the public good, such as well repair, or mosque maintenance. Nette Lougol VO members noted that last year, for the first time, members had adequate and available resources for personal seed purchases. The Takkouliggey group has yet to finish a full loan cycle, yet sees that additional funds will be necessary to expand their agricultural production to a significant level. The Takkouliggey group is unusual in that it is a newly-formed "village." They are starting from scratch, and will not see much of a return on their investment for a long time, in the best of cases.

Village organization credit does not result in employment creation, but neither is this an objective of the PVO component. Of the four village organizations visited, only three paid positions were counted: two herders and a cook, for the young Bacheliers group. VOs may pay the cow or sheep herders, or occasionally a watchman, but in general, members, not hired labor, perform project tasks.

The Director of the PVO component has noted one immediate, though intangible, impact. The participating villagers exhibit increased self-confidence. As an intermediate attitudinal change in a long-term development process (or even as a requirement for successful entrepreneurship) it is an important factor. However, whether credit per se or other project components are direct causes of this, or whether it will contribute to the village organizations' willingness to engage in riskier or different business activities is currently impossible to determine. It is nevertheless an important project concept for later investigation.

4. FACTORS INFLUENCING PROJECT PERFORMANCE AND IMPACT

The performance and impact of the Community and Enterprise Development Project have been influenced by the following factors:

4.1 Small-Scale Enterprise Component

(1) The project design calls for a sustainable credit institution to be in place at the end of the project. The goal is clear, focused on the long term, and gives the project a target and direction. However, the legal structure and final form of the institution were left undefined, forcing the project to grapple with knotty legal and sustainability issues.

(2) Project personnel implemented mid-course design corrections that enabled them to streamline the delivery structure and improve the overall efficiency of the project. This flexibility and willingness to adapt strengthened the project and allowed it to make up some lost time for the delayed start. Reducing the level of technical assistance and expanding the loan portfolio to include commercial enterprises were the biggest changes.

(3) The project targeted a market of small enterprises that was not being served by formal or informal financial intermediaries. These project clients are outside the lending capability of the formal structure, and cannot be adequately served by the local tontines which function as savings clubs.

(4) The project, while appropriately using the minimalist approach in providing technical assistance to clients, has provided ongoing training to local project staff. Training consists of accounting, client and business evaluation, and administrative loan procedures. Local staff is involved, enthusiastic, capable, and eager to carry on at the end of the project.

(5) The business environment during the project life has generally been favorable. The local agrarian-based economy has been stimulated by three years of good rainfall, and has had a multiplier effect on other economic sectors. Inflation has been low, and since most clients are in the informal sector they are removed from excessive government taxes and regulations.

(6) The project has decentralized the lending structure, ensuring good pre-loan client knowledge, close client supervision, and immediate client follow-up for non-payment. This decentralization and client knowledge is essential for reducing administrative delays and delinquency rates.

(7) The project has implemented sound businesslike lending practices. Clients are required to have 100 percent collateral requirement, sufficient cash flows to cover principal and interest payments, and in many cases a portion of the new investment capital. Loans are short-term in nature. Only enterprises that make economic sense receive loans, greatly reducing risks and increasing viability.

(8) The project, because of Senegalese legal constraints, has excluded provision of savings or deposit facilities needed in the rural economy. The inclusion of deposit capabilities would create a more viable financial institution and capitalize the credit fund. The Senegalese legal environment is being studied to determine the exact legal organization of the credit fund.

4.2 Private Voluntary Organization Component

(1) The PVO component of the project is administratively complex, and has multiple objectives. The overall impact of credit is small when compared to total component activity. Community development goals appear to take precedence over business development

(2) Community-based PVOs lack the financial expertise to administer credit projects, requiring a high degree of PVO staff training in business administration and credit management. PVO capabilities are stronger in the social and community development areas.

5. LESSONS LEARNED, IMPLICATIONS FOR FUTURE PROGRAM AND POLICY DIRECTIONS

The lessons learned from the Community and Enterprise Development Project for future A.I.D. policies and programming indicate that small-scale credit programs can have impact and be self-sustaining if the following suggestions are met.

5.1 Small-Scale Enterprise Component

(1) The lending project must begin with the goal of building a sustainable institution and work toward that goal over the long term. Externally capitalized credit funds need years to establish a client base and appropriate loan procedures, develop a trained cadre of loan advisors, and to weather a full business cycle to ensure the institution is sustainable. To ensure this is done the goal must be clear at the beginning of the project. Sustainability cannot be tacked on as an afterthought.

(2) The lending project must limit and prioritize objectives to assure that objectives are congruent and not mutually exclusive. The inclusion of too many development objectives such as targeting economic sectors, specific types of enterprises or groups, and genders; coupled with objectives of increasing agricultural production and job creation may be self-defeating. Multiple objectives dilute the resources of the project and make self sustainability that much more difficult to achieve. The project should be focused; it cannot be all things to everyone.

(3) Lending projects should have socio-economic impact indicators built into project design. These indicators would help clarify objectives and provide a baseline for measuring impact. This baseline data can then be a measuring stick, and a standard for what the project accomplishments should be.

(4) Lending projects should be flexible enough to allow for mid-course redesign to better attain objectives or to adapt to changing economic environment. Including commercial enterprises has expanded the loan portfolio and reduced risk. Changing economic conditions in the years ahead may necessitate other changes.

(5) Lending projects should have simple, direct, and decentralized loan delivery systems to work closely with the small-scale borrower. Close and immediate contact with the client is essential to assess the creditworthiness of the client and to monitor repayment of loans. If clients are known, administrative costs are reduced and credit delivery speeded. The project has an excellent knowledge of the local business environment.

(6) Lending projects should not try to direct economic activity through credit. Economically viable proposals should be funded on their own merits, not developed as a response to available credit. Commercial enterprises that could effectively use loans were not denied access because available funds were targeted to specific sectors.

(7) Lending projects should provide loans at interest rates that at a minimum cover lender costs or match market rates. Credit at a market rate of interest will attract more creditworthy borrowers with viable projects than concessionary credit. The project uses market rates and still attracts a large market not served by the formal or informal sectors.

(8) Lending projects should operate in a businesslike manner by making secured loans, at market interest rates, to qualified borrowers with economically viable projects. Business-like lending reduces risks, and contributes to the sustainability of projects.

(9) Lending projects operating in generally good economic environments should have excellent loan portfolios. A true test will be how well the project does during poorer economic conditions. The past three years have seen good rainfall in the region and economic conditions are good. Defaults and delinquencies will probably increase as a ripple effect spreads through a predominantly agricultural economy negatively impacted by drought.

(10) Lending projects servicing the larger sized microenterprises tend to create more new employment than the smaller sized microenterprises, which tend to reduce underemployment. The larger the microenterprise the greater the probability that laborers other than family members will be employed. Smaller microenterprises employing only family members tend to increase productivity or the level of activity of workers.

5.2 Private Voluntary Organization Component

(1) Group solidarity guarantees can be as effective as financial guarantees in assuring loan repayment, if the group has strong social and cultural ties. The group must be recognized by the village and members as being representative of the society. Members of the group must have strong common bonds based on family, village, or social organization

(2) Economic activity for village groups cannot be directed by the availability of credit. As with enterprises, the more economically viable the project is, the greater the probability that it will be implemented and be successful. Targeted activities in animal raising were too restrictive in the early stages of the project.

(3) If a lending project must work through PVOs, final responsibility for loan approvals and loan monitoring must rest with the real lender. The institution responsible for the money should have approval and monitoring capabilities and authority.

(4) If Village Organizations are to be regarded as promoters of commercially viable businesses, they should be treated as such in terms of profitability expectations. Only viable projects should be financed. If the goal is community development, less strict measures can be used.

(5) Profits from activities of Village Organizations tend to be reinvested for the public good. Assets of most VO projects are difficult to distinguish from village assets, since both are held by the villagers in common. Profits reinvested in village infrastructure (a new well) may or may not have an effect on project profitability.

(6) Village Organization projects do not create new employment, but redefine or expand existing employment in the village. New wage earning jobs are not created, but villagers are engaged in more productive capacities. Underemployment is lessened and productivity increased.

APPENDIX A

LIST OF INDIVIDUALS CONTACTED

USAID/DAKAR

Meyers, Terry: Chief Project Development Officer
Hammink, Bill: Deputy Project Development Officer
Ly, Amadou: CEDP Project Officer
Greene, Richard: Economist

PROJECT STAFF

Laurent, Bertrand: Chief of Party
Tounkara, Adama: Director, PVO Component
Makenzie, John: Director, SSE Component
N'doye, Adams: Assistant Director for Finance
Kinney, John: Asssitant Director for Administration
Gueye, Awa: Training Officer, PVO Component
Laurent, Krystyna: Computer Consultant
Sambe, Babacar: Assistant SSE Director for Adminstration
Gaye, Moustapha: SSE Advisor
Ndiaye, Babacar: SSE Advisor

OTHER

Diallo, Oussenou: Health Agent CER Birkelane (Keur Ismaila and Nette Lougol)
Parr, Peter: Director OEF International, Dakar

ENTREPRENEURS

Daouda Diallo, millet and peanut milling service.
Keba Seck, merchant (esp. cereals).
Ousseynou Diogue, ag commodities sacks retailer.
Ousmane Thiam, grain mill manufacturer.
Comoro Diakhoumpa, dyed cloth artisan.
Bara Seck, miscellaneous metal construction work.
_______________, grain wholesaler.

VILLAGE ORGANIZATIONS

Keur Mbouky (PADEC): cattle fattening and gardening

APPENDIX B

OTHER ACTIVITIES IN SUPPORT OF THE PRIVATE SECTOR

The Private Sector Training Needs Assessment to determine training priorities in support of the private sector and A.I.D./Senegal's assistance program was completed in June 1988. As a part of that exercise, information on other donor activity in support of the private sector was compiled. The following information is taken directly from that document.

A.I.D.

Economic Support Program Grant. (FY 1988 $10 million) The Economic Support Funds provided as cash transfers, have aimed at liberalization of the agricultural sector. The government has shifted responsibility for distribution of agricultural inputs to the private sector. It has eliminated subsidies to the peanut oil pressing firms, ended its management of peanut seed stocks, and opened cereals marketing to private traders.

Senegal Africa Economic Policy Reform Grant. (FY 1986 $15 million) Africa Economic Policy Reform Project supported a package of tax and tariff reforms aimed at increasing the mobilization of domestic resources. Tariff levels and the number of taxable goods have been reduced. The tax code is being reviewed, and tax and customs administration is being strengthened. Under Africa Economic Policy Reform Project II the mission plans to negotiate conditionality on banking sector reform and will finance technical assistance for restructuring and privitization of publicly-owned banks.

PL 480 Title I Program Loan. (FY 1988 $5 million) Focuses the Government of Senegal efforts to shift responsibility to the private sector. Government restrictions on the purchase, transport, and storage of local production have been lifted. The progressive elimination of fertilizer subsidies and encouragement of private sector fertilizer distribution is underway.

Agriculture Production Support. The $20 million project aims to develop a private seed multiplication program and increased private processing, distribution and marketing of cereals. It includes a $9 million credit component for agricultural input suppliers and production marketing to be run through local banks.

Reforestation. The $10 million project encourages the development of private tree nurseries and plantations by working with private individuals, communities, and local organizations to demonstrate the benefits of agro-forestry, through increased yields, and tree products as cash crops.

Irrigation and Water Management. The $8.5 million project will utilize local private firms for design, construction, and rehabilitation of irrigation systems in the Bakel area of the Senegal River Basin. This will involve building private sector capacity to provide irrigation services to local farmers.

Southern Zone Water Management. The $18 million project focuses on strengthening the capacity of local, private water-user organizations to build and maintain small anti-salt and water retention dikes and contour berms to reclaim land and to increase agricultural production. Local private sector firms will be used for dike and berm construction.

Family Health and Population. The $20.6 million project includes a $1.5 million private sector component to encourage private companies to include family planning as part of health services made available to employees.

Other

As in most African countries, the amount of donor support for private sector development is growing. The key players in this area in Senegal are the World Bank, the United Nations Development, Program/International Labor Organization, Canadian International Development Agency, and potentially, the French Development Agency.

World Bank. An integral part of donor support to Senegal's private sector is the Industrial Sector Restructuring Project, which seeks to rehabilitate and modernize Senegal's industrial sector through an IDA loan of $33 million. Other World Bank assistance includes:

(1) **National Employment Fund.** $3 million to finance small scale enterprises. The entrepreneur must supply 5 percent of the total investment and must be from the industrial sector. The borrower pays 8 percent on loans of 3-6 years duration, with up to one year's grace period on principal repayment.

(2) **Professional Retraining Fund.** $2 million to train or retrain laid-off parastatal workers through the National Training Office.

(3) **Ministry of Industry.** Technical assistance (up to $3 million) to restructure the two export promotion agencies, and to help the Central Bank in operating a line of credit.

(4) **Central African Management Studies Center.** Infrastructure support and technical assistance, including the construction of new classrooms, dormitories, and a cafeteria, and the provision of some 170 man-months of technical assistance through 1990.

Two future projects include a major human resources development project which will include a large employment policy component; and in conjunction with A.I.D. and French assistance, a major banking sector reform project, both scheduled for design in FY 1989.

United Nations Development Program/International Labor Organization is organizing quarterly roundtables with representatives from the Senegalese public, private, and parastatal sectors to discuss issues of common interest. The UNDP is

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also funding the ILO implemented training program, ENTREPRENDRE, which selects and trains persons likely to succeed as entrepreneurs.

Canadian International Development Agency, has added training for women and the private sector to the long-term training scholarships it has offered. A proposed grant to the University of Laval is intended to finance research to improve the management training as it relates to teaching new business creation. The project also includes a small component to train unemployed university graduates in entrepreneurial development.

French Development Agency is considering support to the Senegalese Chamber of Commerce to assist entrepreneurs in developing projects and in obtaining financing. The French are also considering establishing a credit line for projects under $500,000.

Donor Scholarships, a small number of private sector participants benefitted from opportunities provided by France, A.I.D., Canada, Federal Republic of Germany, and the EEC for long term academic training, short term training slots, and third country training scholarships.

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