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CONSTRAINTS ON THE SENEGALESE BANKING SYSTEM
THAT LIMIT CREDIT
TO SMALL AND MEDIUM ENTERPRISES

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Charbel ZAROUR
Consultant Economist
B.P. 3477 - DAKAR
6533P

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CONSTRAINTS OF THE SENEGALESE BANKING SYSTEM
THAT LIMIT CREDIT TO SMALL AND MEDIUM ENTREPRISES

SUMMARY AND CONCLUSIONS

1. During the first ten years after Independence, the development of Senegal's small and medium enterprises (SMEs) had to face the installation of large foreign enterprises and state investment activity of the GOS.

For greater participation in the national development process, SME leaders have often sought GOS support for extending their activities to areas so far occupied by foreign enterprises.

During the decade of the 1970s, the GOS made a significant effort at regulations for alleviating the domination of monopolies : protection of SMEs operating in certain sectors, price regulation, contract sharing, establishment of the National Contract Fund, etc.

Also, the 1970s were marked by the creation of three promotion and financing institutions, to assist SMEs :

- 1 promotion institution : SONEPI,
- 2 financing institutions : SONAGA and SOFISEDIT.

In parallel, regulations were instituted during the 70's and 80's on behalf of SMEs concerning:

- tax reduction for investment purposes (Investment Code);
- creation of industrial parks;
- preferential treatment in government contracts;
- customs protection.

Finally, favorable provisions were instituted by the Central Bank for easier access of SMEs to bank credit.

Despite the various measures taken here and there by the GOS and the monetary authorities, the SMEs continue to run up against difficulties that limit both their activities and promotion.

2. The current structural limits to the development of SMEs are, on the one hand, those engendered by the overall economic environment and, on the other hand, those internal to the SMEs.

2.1. The obstacles engendered by the economic environment are of two sorts:

- the sectoral blockage faced by SMEs,
- the difficulties of access of Senegal's SMEs to bank credit.

2.1.1. The sectoral blockage results from the still large presence of foreign enterprises and the public sector.

Thus, the SMEs have mainly limited their activities to unoccupied or neglected sectors, in other words, to low-market and/or low-return niches of the economy : the baking, cabinet-making, stationery, metal-working and metal-repair trades, etc...

A limited market, the large numbers of small units operating in the same branch of activity and the low elasticity of demand, very often reduce the opportunities of moving from the SME stage to the more important, large enterprise stage.

2.1.2. The difficulties of access of SMEs to bank credit are due on the one hand to the low level of own funds stemming from historical conditions and, on the other hand, to the banking system's preference for large enterprises.

True, substantial progress has been made and bank loans to national SMEs have increased from FCFA 4.8 billion in 1976 to FCFA 20.1 billion in 1986, that is five times in 10 years. In addition to these credits, SONAGA has provided financing to Senegalese enterprises in the service sector.

However, the total volume of normal credits to SMEs remains low compared to the total volume of credits to the economy of which it accounts for only 5.5% on average.

This insufficiency of bank financing is often presented as one of the major problems encountered in promoting local Senegalese business due in particular to the fact that the banking system continues to tie its financing to the fulfillment of the following conditions which Senegalese businessmen hardly ever meet :

- requirement of a minimum of self-financing;
- submission of reliable accounting records;
- requirement of solid guarantees;
- high interest rate terms.

The major consequence of this is a distribution of bank credits to the public and parastatal sector and to large companies whose position is thus enhanced.

2.2. The structural limits internal to the SMEs are due to a few essential factors :

low level of own capital: in a context characterized by inadequate bank financing and scarce foreign credits to SMEs, own capital of SMEs is generally low, although it represents a very substantial financing source.

characteristics of SME heads : business management based on choice of strategic objectives is not a concern of the heads of SMEs who are more intent on routine management and on dealing with various problems : bookkeeping, personnel management, marketing, etc.

lack of skilled personnel : wage levels required by skilled personnel are often unwarranted for SMEs or beyond their means.

production techniques : SMEs do not always use modern production methods which require a minimum of qualified labor and investment that are often lacking.

3. Compared to the banking system of the developed countries, Senegal's banking system has specificities as well as constraints that originate from the country's historical relations. The lack of a self-sustaining development process has, among other consequences, resulted in the outward orientation of all economic activities. Hence, the banks' role has consisted, as a priority, in financing a merchant economy structured around two trading activities :

- . financing the import of finished products among which consumer goods are preferred over capital goods;
- . financing raw material exports.

Until Independence, Senegal's banking system which emanated directly from the French system, consisted mainly of branches or subsidiaries of France's major banks which provided credit only to enterprises of a certain size. There was no intervention on behalf of smallholders, farmers, artisans or traders, the avowed reason being a lack of guarantees or the distance between the bank offices and those smallholders. The large trading companies acted as intermediaries and redistributed a fraction of the credits received, in the form of advances in cash or in kind.

That system did not help achieve development objectives owing mainly to the following limiting factors :

- . specialization in short term transactions for international trade financing (import-export);
- . a bank network reduced to a bare minimum;
- . low level of stable resources, demand deposits being the major part of funds available;
- . total lack of credit for social purposes;
- . credit access conditions set according to strict requirements which make totally impossible the entry of Senegalese owing to the rigid relations between local branches/subsidiaries and parent banks in France;
- . transfer of excess bank funds to headquarters abroad;
- . scarce financing for long and medium term investment projects.

All things considered, that policy rather favored the expansion of larger trading companies.

To modify this situation, substantial efforts were made by the West African Monetary Union (WAMU) monetary authorities to bring about needed structural changes and to direct the banking system towards the implementation of national development programs. These efforts were enhanced from 1977, through the implementation of sectoral allocation of credit.

Measures taken to offset the shortcomings of above mentioned commercial banks have resulted in the establishment of the BNDS, a public development bank, then of SCNAGA, SOFISEDIT and currently the CNCAS.

Moreover, the WAMU monetary institutions were extensively modified (viz. the 1973 banking system reform) as well as the Central Bank's intervention rules.

4. Currently, Senegal's banking system continues to present peculiarities, and is confronted with constraints and difficulties, that limit its action on behalf of SMEs.

4.1 The bank network remains concentrated in the Dakar region and its surroundings, which markedly limits its action in mobilizing savings and deposits in the other regions of the country.

4.2 Interest rates applicable by the banks are administered rates fixed according to the Central Bank's basic rates : the preferential discount rate (TEP) and the normal rate (TEN).

This situation denotes some rigidity in the interest rates in so far as they :

- do not always reflect the equilibrium rate that would result from the supply and demand of loanable funds;
- do not take into account the constraints encountered on the resource side notably, costs.

The banks' resources, which are the basis of their policy of supply of loanable funds, are composed of :

- demand deposits,
- time deposits,
- borrowings from correspondents and other financial institutions,
- Central Bank supplementary resources (refinancing),
- their own capital.

Now, Senegal's primary banks remain characterized by low levels of own capital, stabilized deposits, increased resort to the Central Bank's resources and, to a lesser degree, to their correspondents' resources.

It so happens that the average cost of these resources, compared to the interest rates applicable by the banks, does not allow for comfortable margins to help them support or face :

- overheads and repayments, on the one hand,
- the relatively high risk of default in Senegal, on the other hand.

This is especially true of SMEs considered as high risk enterprises.

In addition, interest rates applicable by the banks should not be different from rates applied on foreign money markets, on pain of causing a transfer of savings towards countries offering higher rates : this is the constraint of the franc area to which Senegal belongs.

4.3 For some years, the Senegalese banking system has been characterized by a global disequilibrium between uses and resources. This disequilibrium, which worsened from 1983, reflects a situation of general illiquidity of the banking system. However, some banks are much more affected than others that enjoy more comfortable cash-flow positions. Now it is precisely the latter which are not involved in SME/SMI financing.

The illiquidity of banks with structural deficits is largely imputable to the gradual degradation of their portfolios : an analysis of BCEAO mission reports available on a few banks in Senegal reveals an average portfolio degradation rate of the order of 56.6%. For the most affected banks (BNDS, SOFISEDIT), this situation has led to a near standstill of activity.

4.4 The policy of credit restriction applied since 1980 was intensified from 1983. This policy, justified by lax credit management, has penalized the banks involved in SME/SMI financing. It has resulted in limiting credit expansion.

Moreover, the banks that provide credit to SME/SMIs as supplements to SOFISEDIT and SONABANK credit, no longer have the possibility of resorting to the Central Bank's resources to finance this category of enterprises whether on preferential or normal terms. These are BNDS and USB and, to a lesser degree, BSK.

This situation is largely imputable to the burden of the debts of the ex-ONCAD and the cooperatives refinanced by the BCEAO as well as to the debit balances in the Central Bank's books. Thus, access to Central Bank refinancing will remain limited as long as the latter has frozen and uncleared credits in its portfolio.

Therefore, it is in a highly degraded context that the problem of Senegal's SME/SMIs access to bank credit arises.

There will be no clear solution to SME/SMI financing as long as the liquidity of the banking system is not restored. And that can be achieved only through a banking system recovery policy which requires :

- implementation of a selective and restrictive credit policy;
- clearing up by the GOS of outstanding domestic public debt;
- reinforcement of bank resources by:
 - . increase of their own funds;
 - . settlement by the State of arrears of the domestic public debt. This measure should contribute greatly to the restoration of liquidity of banks whose cash flow has been heavily encumbered by direct loans (ONCAD and OCD debts) or indirect loans (endorsed loans) on the State and on certain private enterprises which are creditors of the State.
 - . settlement of loans to businesses in liquidation;
 - . recovery of frozen, doubtful or contentious loans in the private sector;
 - . recovery of the financial situation of certain enterprises which have received bank loans;

- control of other bank charges/burdens;
- increase of productivity;
- a more balanced sectoral division of bank loans involving all banks in the financing of sectors of high risk and of profitable credits, ultimately to maintain a certain balance within the Senegalese banking system.

5. Bank specialization, as a matter of fact, handicaps the SME/SMIs, in so far as :

- i) the ex-commercial banks are more oriented toward a short term credit policy, and
- ii) medium and long term financing for what are considered to be priority projects is provided by the ex-development banks.

This is partly due to the fact that the ex-commercial banks and mixed capital banks, which collect demand deposits or time deposits, are led to favor the provision of short term credits.

As the SME/SMIs have more need for long term credits to finance fixed assets as part of operating assets, the development of SMEs is only compatible with a credit policy based on long term resources.

6. The watershed of the monetary authorities' action on behalf of Senegalese SMEs occurred following the reform of BCEAO intervention rules, in 1975 :

- admissibility for Central Bank refinancing of investment credits provided by the banks to Senegalese SMEs, up to 90% of project cost;
- a simplified procedure for mobilization with the Central Bank for cash flow credits granted by the banks to SMEs when they do not exceed FCFA 30 million. The purpose of this measure is to encourage the banks to accept more readily such requests for financing by SMEs;

- eligibility for the BCEAO preferential discount rate (TEP) of Senegalese SMEs whose outstanding credits do not exceed FCFA 30 million;
- . provision as from April 1976 of a refinancing facility applicable to bank credits to Senegalese citizens for repurchasing foreign assets;
- . participation by the Central Bank in the companies promoting, organizing or financing SMEs : SONEPI, SONAGA, SOFISEDIT.

In addition to these specific measures meant to promote SME access to bank credit, there are other measures of general scope but whose adoption should have resulted in greater possibilities for financing this category of enterprises:

- elimination of the distinction between commercial banks and development banks : this measure institutes the concept of the universal bank and aims at involving all the banks in the financing of economic development;
- admissibility for Central Bank refinancing of long term bank credits, when they have only ten years to run;
- establishment of a sectoral credit policy aimed at directing normal bank credits towards activities to be encouraged in the framework of the economic policy defined by the GOS.

In this context, to avoid reaching the overall sectoral policy objective to the detriment of Senegalese nationals, Senegal's National Credit Committee has planned that the share of credits to the latter shall not be less than 60%.

With experience, it appeared that the Central Bank's preferential measures did not prove motivation enough, owing to the following factors :

- 1/ The Central Bank, which is responsible for fixing bank rates and terms, requires primary banks to apply an interest rate equal to a maximum of the preferential discount rate (TEP) + 3% for Senegalese SMEs whose outstanding debts do not exceed FCFA 30 million. The rate applicable by the banks for the other categories of enterprises and for Senegalese SMEs whose outstanding credits exceed FCFA 30 million, is equal to a maximum of the TEP + 5%.

There is no doubt that primary banks will be more motivated to finance the enterprises to which they can apply the maximum rate. Now, between the maximum rate applicable to Senegalese SMEs whose outstanding credits do not exceed FCFA 30 million and that applicable to credits supporting the non-preferential discount rate (TEN), the rate differential is 4.5%. Therefore, there is a natural tendency with the banks to maximize their profits at least cost, which objectively leads them to neglect the higher risk SME sector.

- ii/ The sectoral policy is not easy to apply and is not compatible with the specialization of some banks (BHS, CNCAS, etc). Moreover, it is too global and the sectoral monetary policy objectives do not necessarily correspond with the natural areas of profitability of bank activity.
7. Primary banks balk at providing loans to SME/SMIs because, apart from the rate policy which does not assure them adequate returns, they are confronted, in their SME/SMI financing policy, with the following risks :
 - Default risk : The guarantees provided by SME/SMIs do not always assure to creditor banks absolute reliability in the event of damage or difficulties in credit reimbursement. Only guarantees provided by SONEPI (Guarantee Fund) are considered reliable, but difficult to mobilize.

In addition, SME/SMIs often resort to a parallel mortgage market for collaterals to offer to the banks. Now, these collaterals are of excessively high cost (in general 15% of credit cost) which explains why SME/SMIs usually start off with a handicap. Credit risk has effects on the banks' cash-flow positions.

- Liquidity risk : Repayment of long, medium or short term credits, is often a secondary concern for SME heads. The risk of default is estimated at 2 to 2.5 times as high among SMEs as among other categories of enterprises.

Thus, SOFISEDIT's unsound portfolio includes 13.5% doubtful loans to SMEs while SMEs account for only 6% of total financings by this bank. And SONEPI estimates that one SME project in five, that is 20%, does not survive its third year.

Furthermore, the chances of recovery on dead projects do not generally exceed 40% of the contentious credit amount, which requires a minimum provision of 4% per year. Liquidity risk is also reflected on to the banks' cash-flow positions.

- Financial risk : Inadequate own capital leads SME/SMIs to excessive recourse to bank credit and increases both their bank charges and debt service burden. It is the principle of limited liability which does not oblige SME/SMIs to be concerned with the repayment of credits received (liquidity risk) nor to take into account their invested capital.

Financial risk often results in credit risk.

Also, the banks consider that SME/SMIs should be led to stake larger amounts of capital, to increase their own funds and to offer more secure and reliable guarantees.

Finally, the banks believe that, in the absence of recent accounting records, they cannot appraise the financial positions of the SME/SMIs applying for bank credit or obtain the basic data for Central Bank refinancing.

8. To favor SME/SMI access to bank credit, the following measures and arrangements are suggested :

- a substantial rise in the ceiling for access to the Central Bank's preferential conditions within limits compatible with the restrictive credit policy. Concurrently, this could be accompanied with a lowering of the Central Bank's intervention ceiling to harmonize with the required self-financing rule, which is 20% according to the new investment code;
- relaxation of the bankability rules to take account of different activity sectors (long cycle and short cycle enterprises);
- a rise in the interest rate applicable to Senegalese SMEs. The incentive rate called the equilibrium interest rate, is reportedly 15.5% currently, exclusive of the tax on services. This rate was calculated to allow for the following costs :

. Average cost of borrowed resources :	7.50%
. Overhead expenses + amortization compared to committed capital (liabilities on balance-sheet + liabilities off balance-sheet - acceptance borrowers:	4.00%
. Provisions for risk of default	4.00%

This rate could be reduced to the extent that the SME/SMIs could offer secure and reliable guarantees that would reduce default and damage risks;

- a more equitable distribution of the requirements for increasing normal credits in favor of those banks more involved in financing of SME/SMIs;

- a strengthening of SME/SMI own capital. In this regard, it is suggested:
 - . to invite SME/SMIs to base their investment policies on previous savings and to open "enterprise savings" accounts with the banks;
 - . to provide SONEPI's Participation Fund with additional resources, estimated roughly at FCFA 250 million;
- establishment, for the banks interested in financing SME/SMIs, of a credit line of FCFA 3 billion, of which :
 - . FCFA 2.5 billion to finance SMEs in the form of long and medium credits,
 - . FCFA 0.5 billion for providing short term credits ranging from 3 months to 1 year.
- reactivation of a fund for advances on government contracts, through the provision of FCFA 300 million;
- strengthening SONEPI's management assistance department through the allocation of resources estimated at FCFA 100 million;
- strengthening SONEPI's study and promotion department so that the banks can be relieved from the technical examination of loan application documentation;
- grouping all funds for assistance to SMEs for management by SONEPI alone; concurrently the subsidy fund should simply be eliminated;
- creation of mutual guarantee companies, with variable capital, by branch of activity, and grouping them within one financial institution. These companies should be able to create, by themselves, guarantee funds to secure and facilitate the provision of bank credits;

- participation, at a conference or round-table, of foreign donors (bilateral and multilateral institutions) interested in financing SMEs with a view to defining and outlining a policy of sectoral assistance to SMEs oriented toward exports and productive projects.

INTRODUCTION

In Senegal, as elsewhere in Africa, it is generally recognized that SMEs are vital to the national economic activity.

Unfortunately, Senegalese SMEs are insufficiently developed and too concentrated in towns, particularly in the Cap Vert region.

Diffusion throughout the country of SMEs and SMIs, close to the rural population and capable of providing them with diversified services, would certainly help improve the country's economy which, it should be remembered, is mainly agricultural.

It is recognized that SMEs have the following multiple advantages:

- specialization;
- ease of adaptation to local conditions;
- creation of new links between various sectors of the economy;
- animation of local and regional economies;
- job creation;
- constitution of a skilled labor market.

At a time when Senegal is confronted with the debt problem and is seeking to reequilibrate both its trade balance and balance of accounts, the creation of SMEs for goods and services production would help to reduce the ratio of imports to production on the one hand, and to increase or valorize production for export on the other hand.

Moreover, it was noted in recent years that the SMEs could be used as a means to interest farmers in processing their products and hence to curb the rural-urban migration of young people by assuring employment opportunities to those receiving technical education, and finally to facilitate the reconversion of the GOS employees wishing to join the private sector.

Thus, SMEs are part of the food strategy linked to the food self-sufficiency goal.

However, one should not close one's eyes to the serious obstacles to a harmonious development of Senegalese SMEs.

These obstacles, of a structural and historical nature, include notably the low level of financial resources allocated to the promotion of SMEs.

The purpose of this study is to analyze the constraints of the Senegalese banking system that limit extension of credit to SMEs.

By banking system, we mean all institutions which participate in the financing of the economy, namely:

- the Central Bank;
- the primary banks;
- the financial establishments;
- the agencies more or less linked to the banking system.

To carry out this study, we undertook a survey of some local primary banks, notably the ex-development banks (SOFISEDIT, BNDS) and the classic commercial banks (USB, BIAOS, SGBS, BICIS).

In addition, we have been able to hold a series of discussions and working sessions with:

- the Credit Service of the BCEAO's National Agency for Senegal;
- the officials of SONAGA's SME unit;
- the heads of the main services of the SONEPI;
- the CNCAS credit manager.

Concerning the primary banks, except for SOFISEDIT, we were not able to obtain information or responses to the questions we formulated to that effect.

It should however be pointed out that the USB-CI's Managing Director agreed to have an extensive discussion with us and has promised to send us precise responses to our questionnaire.

We take this opportunity to express our gratitude to him, to the officials at SONEPI, SOFISEDIT and SONAGA, as well as to the staff of the Credit Service of the BCEAO Senegalese branch for accepting to spend some time with us and for their warm reception.

Finally, it should be pointed out that this study was based on information from the Central Bank, SONEPI, SOFISEDIT and SONAGA and on a considerable volume of documentation on SMEs.

This report reviews also previous studies on the subject and is supported, as far as the banking system is concerned, with GOS data or data from concerned institutions.

PART I: GENERAL PROBLEMS OF EMPLOYMENT GENERATION AND THE SITUATION OF
SENEGALESE SMALL AND MEDIUM ENTERPRISES

CHAPTER I: The structural and historical constraints to the development of
small and medium enterprises: The economic context of
Senegal

1. Nature of constraints

The integration of SMEs into the economic activity network has, from the first years of independence, run into structural and historical constraints stemming from:

- i) the implantation of large foreign enterprises, and
- ii) the GOS investment action.

Because of the weight of the public and parastatal sector on the one hand, and the competition from foreign enterprises on the other hand, SME activity has been limited to less important, low or average profit sectors of the economy.

This chapter reviews the difficulties encountered by the SMEs in the face of such constraints, as well as the new strategy that emerges from the various economic and financial recovery plans undertaken by the GOS.

2. Competition with foreign enterprises

The large foreign enterprises established since colonial days long dominated, and are still partly dominating, the main sectors of Senegalese economic activity: the processing industries, a large proportion of the trade, and consumer industries. Therefore, the very few SMEs carrying on activities in the sectors dominated by large foreign enterprises have been clashing at all times with competition from the latter.

At the domestic level, the SMEs have difficulties penetrating the market, the clientele being controlled by foreign enterprises which have a strong and ramified distribution network and long-standing trade experience from the past.

At the external level, foreign enterprises most often receive substantial support from their external partners.

Thus, competition for foreign markets end up most of the time in favor of the foreign branch implanted in Senegal, the Senegalese SME being most of the time constrained by its small size, inexperience and limited potential to fit into foreign marketing channels.

Furthermore, even if the SME generally proposes competitive prices compared with these of the large enterprise, it often fails to win Government contracts it bids for, because it does not have a strong enough financial base to allow it to execute contracts smoothly.

This situation has often led the SMEs to seek the protection of the GOS which at the end of the first ten years of Independence, felt the need to undertake diversified action in favor of the SMEs in this area.

That is why during the 1970's, regulatory measures were established in order to reduce the domination of monopolies:

- protection of the SMEs in certain sectors: this is the purpose of the law No. 71-74 dated July 28, 1971 which, while reorganizing trade and industry structures, subordinated the practice of certain trades to the prior authorization rule, which, in the mind of the GOS authorities, was supposed to give a relative advantage to the creation of enterprises by Senegalese entrepreneurs;
- price control;
- contract sharing;
- creation of the National Contract Fund (Caisse Nationale des Marchés), etc.

Despite this whole series of measures, Senegalese SMEs have not yet reached a situation of equilibrium and growth owing to their difficulties of access to bank credit.

3. Public and parapublic sector

3.1. Weight of the public sector in the Senegalese economy

The post-independence period was marked by the establishment of large public and parapublic institutions through which the GOS wanted to be the main spring of the development process.

That policy drew upon the idea of "counter-models" of the large trading-posts that have traditionally dominated the Senegalese economic life 1/.

Moreover, the voluntarist nature of the post-colonial policy was aimed at paving the way for a specifically Senegalese industry in an environment largely dominated by foreign enterprises.

This was the initial phase that corresponded to the period from independence to the late 1960's during which the GOS action had been extensive, touching all the strategic sectors such as:

- agriculture, with the law on public land use (domaine national) and the abolition of the colonial peanut marketing system (traite) through the establishment of the Agricultural Marketing Office (OCA), subsequently OCAS, and the National Office for Development Cooperation and Assistance (ONCAD) as well as of several rural development agencies with the idea of controlling the agricultural sector;
- banking system, with the creation of the National Development Bank of Senegal (BNDS) and the Union of Senegalese Banks (UBS);
- housing, with the Cap Vert Region Real Estate Company (SICAP) and the Office for Low-rental Housing (OHLM);
- domestic distribution, through the establishment of a new channel with the National Company for Distribution (SONADIS).

1/ See previous section on the implantation of large foreign enterprises.

The second phase concerned the 1970's during which the GOS undertook major public investment programs in order to make up for a situation of disinvestment marked by the weakness of the private sector.

Indeed, despite the GOS's attempts to orient and activate the main sectors of economic activity, industry implanted in Senegal and controlled by the former colonial companies fell back on a protected market sheltered from foreign competition where it could continue to make profits from an obsolete production instrument, rather than modernize itself and turn towards new markets.

On the contrary, the industrial fabric and modern services designed during the colonial period for a merchant economy at the level of former French West Africa (AOF) have subsequently reduced their activities to fit the new Senegalese market without profound reorientation and at the expense of a marked disinvestment.

This situation was at the origin of the second phase, public investment programs implemented under the 4th and 5th four-year development plans (1973/74 - 1976/77 and 1977/78 - 1980/81 periods).

Those programs aimed at:

- increasing agricultural productivity, production and marketing in the rainy regions and developing irrigation;
- extending the parastatal sector rapidly in order to stimulate new industries and to ensure national level take-over of foreign owned companies;
- creating a framework of highly trained administrators.

Unfortunately, as pointed out by the World Bank 1/, this public sector expansion has been a source of public finance tension, and deficits because of mismanagement as well as of the poor design of many projects.

1/ World Bank, Economic Memorandum of 11/4/84.

Because of the increasing weight it has gradually taken in the Senegalese economy, the public and parastatal sector was a great drain on funds, thus penalizing the few SMEs which encountered difficulties of access to bank credit.

It is estimated that, in 1985 and 1986, the public and parastatal sector absorbed respectively 34.45 and 36.11% of total credits allocated to the economy.

Credit allocation, by term, is detailed as follows:

Table 1.

Breakdown, by term, of credits
to the public and parapublic sector 1/
(in % of total bank credits)

	<u>1985</u>	<u>1986</u>
Short term credits	14.95	15.99
Medium term credits	5.88	3.54
Long term credits	<u>13.62</u>	<u>16.58</u>
TOTAL	34.45	36.11
Average outstanding (in millions of CFAF)	375,502	406,077
of which:		
- private sector	245,821	259,546
- public sector	129,651	146,531

(Source: BCEAO)

1/ Including the ex-ONCAD and OCD debt.

3.2. Policy adopted toward the public sector under the economic and financial recovery plans

Following disruption in the world economy and in endogenous factors which were in fact structural, the GOS, in collaboration with the IMF and the World Bank, established in 1978/79 an Economic and Financial Recovery Plan for the 1980-85 period. This plan was to follow a stringent policy of rehabilitation of public finances, price adjustment, wage control, credit ceilings, and other measures.

From its first year of implementation, the plan coincided with the dissolution of ONCAD in 1980.

Despite this severe stabilization policy, Senegal could deal only partly with its macro-economic disequilibria. Hence, the GOS established, in consultation with the donors, a Medium and Long Term Structural Adjustment Program (PAMLT).

The structural adjustment program, which has been implemented since 1985, aims at the following main objectives.

- 1 - consolidation of the economic growth bases through the redefinition of appropriate sector strategies and the establishment of suitable incentives for stimulating the revival of private investment. In this context, a New Agricultural Policy (NPA) and a New Industrial Policy (NPI) were defined and implemented in 1985 and 1986;
- 2 - Greater efficiency of the investments through promoting private investments and further refocusing public investments toward productive sectors;
- 3 - redimensioning of the parastatal sector and improvement of its management;
- 4 - rehabilitation of the financial situation and foreign position of Senegal as well as its consolidation.

The basic principle underlying the program is the GOS's gradual and responsible disengagement in favor of entrepreneurs. This principle is based on a strategy that can be epitomized by the following concept:

"Less of the State but a better State" or even
"Less State and more market".

This principle, propounded during the July 29, 1985 Interministerial Meeting on the GOS New Policy towards the parastatal sector, aims at limiting the State's range of intervention to the essential areas of public activity and at reducing significantly the State portfolio.

The State must reduce its intervention to a bare minimum in the area of trade and production activities and better focus its action around its priority missions. This means that the State disengagement must be decided when it is demonstrated that a service or product can be obtained at a lower social cost through another formula than that of intervention.

This also means specifying the "hard core" enterprises that must be maintained in the parastatal sector because they accomplish their public service missions efficiently or play a strategic role in the development of economic activities.

Finally, this means further involving the private sector itself in the investment and employment process.

Under the New Agricultural Policy, the principle of the disengagement of the State has given rise to institutional reforms that have led to total or partial phasing out of the rural development agencies and the lay-off of their personnel.

Two important agencies disappeared as early as 1985:

- The National Company for Supplying Rural Areas (SONAR) dissolved by law No. 85.13 of February 25, 1985;
- The Company for New Lands (SIN) dissolved by law No. 85.24 of the same date.

Regarding the Company for Development and Cultivation of the Senegal River Delta (SAED), the GOS disengagement will be effective as from 1988.

The Company for Development of the Sylvo-pastoral Zone (SODESP) will change its status from that of a public establishment to that of a variable capital semi-public company which inter alia makes it possible to get entrepreneurs involved in the system to participate in its management.

As for the Senegal's Institute of Agricultural Research (ISRA), the objective is to match financial resources with research programs, which should result in cost reductions for the GOS.

Under the New Industrial Policy, the strategy aims at increasing the sector's productivity and competitiveness through strong reforms in the system of protection and through measures for restructuring and modernizing the production system.

The effect of these different policies (NPA, NPI) will inevitably be translated into the loss of many jobs.

Because of this, the strategy adopted is one of integration and reintegration through the creation of SMEs in the productive sectors.

The rationale for this strategy of creating SMEs is two-fold:

- to favor the construction of a dense and integrated industrial fabric in lieu of the existing structure that finds it hard to respond to the fluctuations of the international economic situation;
- to end the era of GOS intervention in order to free up creative energies. The GOS wants to regain its primary role as planner and regulator of economic activity and, at the same time, to redynamize the national potential for production and increase the efficiency of investments by mobilizing an innovative private sector capable of taking risks and competing.

Thus, it is under the new agricultural and industrial policies that the growth and development of the SMEs regain all their significance.

CHAPTER II: SITUATION OF SENEGALESE SMALL AND MEDIUM ENTERPRISE

Section 1. Definitions and criteria for classification of SMEs

The SME sector is difficult to define and the definitions available cover very different enterprises.

In Senegal, there is no single definition of the SME, each viewer choosing to consider that which seems most appropriate with respect to his objectives.

A 1981 study undertaken by the Economic and Social Council (Conseil Economique et Social) on SMEs found that criteria considered to delimit the Senegalese SME are quantitative ones, grouping gross investments, turnover and number of jobs within certain intervals of delimitation.

1. Definition of the Senegalese SME with respect to the law

In order to promote the Senegalese SME by providing it with an appropriate legal framework ensuring optimal conditions for creation, evolution and expansion, some incentive and protective measures for the SMEs have been adopted under several laws:

- Law 72-46 of June 12, 1972,
- Law 77-91 of August 10, 1977,
- Law 81-51 of July 10, 1981, and
- Law 87-25 of August 18, 1987.

Law 77-91 of August 10, 1977 defined the SME as an enterprise whose creation and extension had required a minimum investment of CFAF 5 million within a 2 year period.

The incentive and protective measures provided by law 77-91 were linked to the level of the investment which was to range between CFAF 5 and 200 million.

Law No. 81-51 of July 10, 1981 retained the investment level and nationality of capital criteria to define the SME eligible to benefit from tax shelters. This law modified the baseline figures contained in law No. 77-91 of August 10, 1977.

Under law No. 81-51, the small enterprise was defined as an enterprise carrying out an investment program of less than CFAF 20 million within 2 years, in contrast with medium enterprises whose investment programs ranged between CFAF 20 and 200 million within a 3-year period.

The new law 87-25 of August 18, 1987 containing the new Investment Code, defines a small and medium enterprise as any enterprise that cumulatively meets the following conditions:

- a) its investment program is higher than or equal to CFAF 5 million and lower than or equal to CFAF 200 million (exclusive of recoverable VAT) and includes fixed assets of any kind as well as permanent revolving funds.
- b) the number of permanent salaried employees of Senegalese nationality is equal to or higher than 3;
- c) the enterprise undertakes to maintain regular accounts that conform to Senegal's Accounting Plan.

Unlike the former one, the new Investment Code governs small, medium and large enterprises with the aim of eliminating the discrimination which always existed to the detriment of the SMEs on whose vitality the GOS relies for creation of jobs and densification of the industrial fabric.

Under the new Investment Code which is a single code and eliminates the system of enterprises benefiting from special agreements, the large enterprise must be set up in the same environment as the small enterprise.

The new code applies to all enterprises including small and medium enterprises which operate in one of the following sectors:

- a) Agriculture, fishing and animal husbandry, and related activities in processingm storing and packaging of products of vegetal, animal and sea origin;
- b) Manufacturing activities in production or processing;
- c) Exploration, extraction and transformation of minerals;
- d) Tourism, tourist developments and industries and other hotel activities;
- e) Film activities undertaken by small and medium enterprises;
- f) Services performed by small and medium enterprises in one of the following sub-sectors:
 - Health,
 - Education,
 - Assembly of industrial equipment, and
 - Maintenance of industrial equipment.

2. The Société Nationale d'Etudes et de Promotion Industrielle (company for studies and industrial promotion) (SONEPI)

Created in 1968 by the GOS in order to promote the establishment and development of SMEs, until 1933 SONEPI used the following definitional criteria which in fact concern only small and medium industrial enterprises but not small and medium enterprises in general.

- . Gross investments =
5 to 250 million CFAF of which 5 to 25 million CFAF for small industry;
- . Turnover =
5 to 500 million CFAF of which 5 to 50 million CFAF for small industry;
- . Number of jobs =
5 to 300 jobs of which 5 to 50 jobs for small industry.

These criteria date back to 1974 when SONEPI conducted a comprehensive study on SMEs.

Based on a 1984 survey of the situation in 1983 of enterprises in the Dakar area, SONEPI retained the level of investments and the number of permanent jobs created as the criteria for definition of the SME. 1/

The objective is to differentiate SMEs from artisanal enterprises and large scale industry in order to orient promotion activities of the agencies concerned efficiently and effectively and to emphasize better the realities of Senegalese enterprise in general, and of the SMEs in particular.

These two criteria are analyzed and defined according to the 8 branches of activities retained in the survey to lead to the following definition (see table on following page):

1/ See SONEPI, data from the 1983-84 progress report, data annex and attempt at a definition of the SME in Senegal, chapter 1, pp. 4 to 10.

Branch of Activity	Small industries		Medium industries	
	Number of jobs	Investment (in million of CFAF)	Number of jobs	Investment (in million of CFAF)
-Mining industry	6 to 15	10.1 to 50	16 to 100	50 to 250
-Food processing, agro-industry, fishing	6 to 30	10.1 to 35	31 to 150	35.1 to 200
-Chemical and para-chemical industry	6 to 20	15.1 to 50	21 to 100	50.1 to 300
-Textiles, clothing, knitting, leathercraft	6 to 35	5.1 to 25	36 to 150	25.1 to 150
-Metal industry, metalwork and processing	6 to 50	5.1 to 50	51 to 200	50.1 to 250
-Paper and cardboard, printing	6 to 15	15.1 to 70	16 to 100	70.1 to 250
-Woodworking, furniture making, saw-mills	6 to 35	10.1 to 30	36 to 150	30.1 to 150
-Building, public works miscellaneous services	6 to 50	10.1 to 50	50 to 150	50.1 to 100

3. The Central Bank of West African States (BCEAO)

According to the rules of the BCEAO, a national enterprise is an enterprise at least 51% of whose capital is held by nationals of the West African Monetary Union (WAMU) and whose effective management is in charge of citizens of the WAMU countries.

National enterprises thus defined are also classified into two categories: those whose credit ceiling does not exceed 30 million CFAF and those whose credit ceiling exceeds 30 million CFAF.

In this respect, it should be noted that if in practice national enterprises of the countries belonging to WAMU most often present the characteristics of small and medium enterprises because of their size, the BCEAO definition relates to national enterprises rather than to small and medium enterprises.

4. Other Senegalese Institutions

The Société Nationale de Garantie, d'Assistance et de Crédit (SONAGA) and the Société Financière Sénégalaise pour le Développement de l'Industrie (SOFISEDIT), although intervening in varying degrees in the financing of small and medium enterprises, nevertheless do not use their own definitions, but rather are inspired according to the case, and according to their needs of the moment, by the definitions given above.

On its side, the Dakar Chamber of Commerce tends toward multiple criteria (SONEPI'S type of definition), nevertheless adding qualifying measures (notably, management by the promoter himself, who, in the SME, is the "one-man band" of the enterprise).

Finally, it will be noted that these definitions are not concerned with artisans in the same way: the BCEAO does not make a distinction between them and the MSEs, whereas the Investment Code and SONEPI put them at a very low level of investments (less than 5 million CFAF) or of employment (less than 5 persons);

In the same way, it should be remembered that the mutual guaranty system that the Chambre des Métiers expects to install for the artisans would aim at guarantying only investments between 500,000 and 2 million CFAF.

5. Conclusion of Section 1

In view of the diversity of criteria used for defining the SME, the members of the Conseil Economique et Social recommended to the administration, in a 1981 study on small and medium enterprises, the adoption of a standard definition in the form of a law setting out the conditions specifically applicable to the sectors or sub-sectors of activity that would themselves be defined by the objectives of economic and social development.

Thus, a business could lose its quality of small and medium enterprise, and consequently the advantages which stem from it according to the economic and social exigencies of the moment, the evolution of its activities or the new orientations of government policy.

In that sense, the new Investment Code law responds to the recommendations made by the Conseil Economique et Social by giving the SME a definition as clear as possible, without, however, reconciling the definitions adopted by SONEPI and the BCEAO.

Section 2. Density and Characteristics of Senegalese SMEs

In 1974, SONEPI completed an exhaustive study 1/ of Senegalese small and medium enterprises, and the statistical data contained in that study have been up-dated in 1984 by a survey of SMEs in the Cap Vert region.

Figures drawn from that study have been an important source of information, as has the report of the Conseil Economique et Social of 1981 2/ and that of the BCEAO Symposium of June 1982 3/.

However, the Conseil Economique et Social situated the problems of SMEs in all branches of activity of the Senegalese economy, while the SONEPI study was limited to industrial small and medium enterprises.

The SONEPI survey of 1974 counted 200 Senegalese SMIs, or 72% of the total number of industrial enterprises in the country. They employed 7,950 people, or 30% of the workers in the industrial sector, and they realized a turnover of 22.3 billion CFAF, with a value added of 8.5 billion CFAF compared to the whole secondary sector:

- . 12% of the total industrial turnover
- . 12.2% of the value added
- . 8% of the total turnover of industrial investments for the period under consideration

In 1974, the SMIs were strongly concentrated in the Dakar region (175), while only 12.5% of SMIs were located in other regions. A survey of industries located in the Dakar region, carried out by SONEPI in 1984, counted, out of the 541 industrial establishments counted, 479 small and medium industries - or 90% of the total - of which 59% were owned by Senegalese.

1/ SONEPI: "Petite et Moyenne Entreprise au Sénégal - Structures - Problèmes - Perspectives" - 1974

2/ Economic and Social Council: "Etude sur la Promotion des PME" - 1981

3/ Seminars COFEB - BCEAO sur "l'Entreprise et ses Banquiers - le cas des PME" - June 1982

The 479 SMIs had realized an investment of 12.66 billion CFAF and created 13,472 jobs, for an investment to employment ratio of less than 1 million CFAF, while for medium size investments (priority regime) the ratio was in the neighborhood of 4 million CFAF per job created.

In addition, these 479 SMIs have realized a turnover of 37.27 billion CFAF and derived a global value added of 15.2 billion CFAF.

Thus, it can be established that between 1974 and 1983, the number of SMIs introduced into the Dakar region rose by 170% and the number of jobs created by this sector grew by 94%.

The principal industrial branches of concern to SMI are:

- mining industries such as quarrying
- food, agro-food and fishing industries
- textiles and ready-made clothing
- metal working and machinery
- paper and printing
- wood working and furniture
- construction

Another source of statistical information is that of the Centrale des Bilans on the number of Senegalese SMEs.

The criteria used by the Centrale des Bilans, which are purely banking ones and therefore different from those of SONEPI, were modified in April 1979 when it was decided by the monetary authorities to consider as national enterprises those whose outstanding credits came to 30 million CFAF, instead of the 20 million CFAF before the decision of 1979.

According to the figures of the Centrale des Bilans ^{1/} the number of SMEs went from 136 in December 1970 to 593 in December 1975 and to 1,348 in January 1981.

In 1985 and 1986, the enterprises, and individuals whose outstanding credits were less than 30 million CFAF, rose, respectively, to 2,313 and 2,417, for a total of 3,635 users of credit in 1985 and 3,763 in 1986.

Table 2

Distribution, by Branch of Activity, of Recipients of Outstanding Credits of less than 30 Million CFAF

<u>Branch of Activity</u>	<u>1985</u>	<u>1986</u>
Agriculture and Fishing.	56	53
Mining Industries.	3	2
Manufacturing.	154	130
Electricity - Gas - Water.	-	-
Building and Public Works	93	89
Wholesale and Retail Trade, Restaurants, Hotels.	744	778
Transport, Storage, Communication.	296	309
Insurance, Real Estate, Business Services.	76	72
Community Services.	<u>297</u>	<u>417</u>
All Branches, not including loans to individuals .	1,721	1,850
Loans to individuals	<u>592</u>	<u>577</u>
All Industries, including loans to individuals ..	<u>2,313</u>	<u>2,427</u>

(Source: BCEAO)

^{1/} The Centrale des Risques does not systematically distinguish, among the enterprises, those they consider as SMEs.

The figures of the preceding table confirm the trend observed in the report of the Conseil Economique et Social, namely that Senegalese businessmen are more attracted to the services sector (82% in 1985 and 85% in 1986), and particularly to commerce (41% in 1983 and 43% in 1986).

Thus, the previously cited study showing the predominance of commerce in the Senegalese business structure is explained by two principal factors:

- the low level of own funds belonging to Senegalese businessmen necessarily leads them to invest in the sector of low capital intensity;
- even if their own funds are considerable, the presence of foreign enterprises and of the State in the other sectors is such that, to avoid the effects of competition in these sectors, SMEs usually become part of the most easily accessible branches of activity, such as transport and trade.

Also, it appears from the different studies of the question:

- i/ that the Senegalese SME functions primarily in the tertiary sector;
- ii/ that it is most often presented as a collective company, or a corporation, or again, an individual enterprise where the property of the manager and that of the enterprise are intermingled;
- iii/ that it is linked to the personality of the promoter who most of the time is personally responsible for the management of all the functions of the enterprise.

Section 3. Role of SMEs in the Economic Fabric, and Justification of a Policy of Aid to SMEs

SMEs serve to promote a model of development supported more by the self-organization of individuals than by development selected by the public sector; from that point of view, their advantages are four:

- i/ the flexibility of their structures (often close to those of the informal sector) permits them to respond to the exigencies of the local cultural milieu, much better than can the very large organizations, which are often copies of the western model
- ii/ their small and medium size offers to local savings the possibility of productive investments on their scale;
- iii/ their management, by one man, often endowed more with experience than with theoretical knowledge, is particularly well adapted to existing human resources, since management skills are rare.
- iv/ their production closely follows demand so that they are well integrated into the local market. A characteristic example is the fabrication of millet milling machines. This good integration permits, without previous expensive research by research bureaus, the avoidance as much as possible of investment errors, and thus economizing on scarce capital.

The diversity and the growth of SMEs should in the end give to Senegal's economy a more stable and competitive foundation; a class of entrepreneurs would be progressively organized, by the emergence of more structured units from the informal sector, and by the awareness of managers of all the implications of their functions.

Nevertheless, the introduction of SMEs at the regional (provincial) level raises the challenge of costs higher than those found in the Cap-Vert region.

In effect, the Cap-Vert region undoubtedly constitutes a pole of attraction for SMEs because it permits savings in costs, otherwise higher if located in the other regions of Senegal (savings in transactions, transport and information costs and the costs of finding suppliers and customers). Furthermore, the banking network is clearly more developed in the Cap-Vert region and greatly facilitates business transactions.

However, greater development of SMEs in the interior of Senegal should be considered, with a view to letting them take over from the public sector, specifically the rural development agencies.

That is one of the tasks of CNCAS, which is increasingly concerned with developing its network of activities toward the rural world.

Furthermore, the Senegal River region could in the future be a new pole of attraction if the river basin development now under way leads to the creation of diversified activities to support agriculture.

Finally, a specific policy of aid to SMEs is justified inasmuch as the SME should, at a certain stage of its development, cross two particularly difficult thresholds:

- getting out of the "informal" sector, which obliges the enterprise head to consider the future of an enterprise which has become permanent, and to organize it to respond to the constraints from which rigidity grows;
- growing in size, which implies a differentiation of management responsibilities, and accordingly, for management, a second reconversion, or withdrawal.

Now, this course comes up against obstacles specific to Senegalese SMEs.

These major obstacles are four in number:

- a) the difficulty of acquiring skills;
- b) the difficulty of finding customers, or the necessary products, in an economy where there is little diversification, and where interindustrial transactions are few;
- c) the difficulty of tapping external and internal savings necessary for growth, in a country where a financial market does not exist and where commercial banks are unwilling to lend to SMEs;
- d) the difficulty, for all SMEs not in the Cap-Vert region, of enlarging their market or the circle of their suppliers, without incurring high transport costs.

Lastly, there should be added to these four obstacles a fifth difficulty, which is sizeable, the insufficiency of the promoter's own funds.

The chapter that follows, and which closes the first part of this report, takes stock of the action of the State in favor of SMEs through different regulatory systems.

On the other hand, support to the financing of SMEs will be analyzed in the second part of this report which deals with the banking system.

Chapter III. Regulatory Provisions in Favor of SMEs

1. Tax relief for investments: Law 87-25 of 18 August 1987, amending Law 81-51 of 10 July 1981.

The 1987 Investment Code law foresees a series of advantages for small and medium enterprises under the general regulations and under the special regulations.

Under the general regulations, small and medium enterprises benefit:

- i/ from the exemption from duties and taxes collected on the entry of materials and equipment neither produced nor made in Senegal, and destined in a specific manner for production or exploitation in an approved program, during the period of the realization of investments and at the latest at the expiration of a period of two years.
- ii/ from the exemption from turnover taxes billed local suppliers of goods, services and work necessary for the completion of an approved program.

Under the special regulations, small and medium enterprises benefit, for the accomplishment of their program of investments, from the following special advantages, added to those in general regulations:

- i/ exemption from the duties imposed on legal documents verifying the establishment of the companies and the increase of capital necessary for the accomplishment of an approved program;
- ii/ exemption from the patente tax if the enterprise is located in a zone other than the agglomeration of Dakar and its environs;
- iii/ exemption from the flat-rate minimum tax (Impôt Minimum forfaitaire);

- iv/ exemption from the flat-rate wage tax (contribution forfaitaire à la charge des employeurs) due on wages and salaries paid to Senegalese employees.

Given the sectors of industry eligible under the 1987 Investment Code, 1/ these advantages cannot be granted to SMEs engaged in trade, that is to say, resale without further processing of products bought outside the enterprise, or to industries eligible under specific codes.

Thus, SMEs operating in trade, transport, warehousing, and services other than those of tourism, the movie industry and health, education, assembling and maintenance of industrial equipment are excluded.

In other respects the 1987 Investment Code introduces a change compared to previous codes: the SME is obliged to finance by a capital investment at least up to 20% of the total cost of the projects proposed in the agreement, including working capital.

By capital investment, the new code means:

- participation consisting of a contribution in currency or capital goods;
- loans granted to anyone other than the State and of a maturity of more than ten years;
- the part of undistributed profits that is reinvested.

Also, while granting these substantial and considerable advantages, the 1987 code nevertheless does introduce restrictive conditions for SMEs because of the structural weakness of their funding.

1/ See Ch. II, p.14

Further, the 1987 code requires the SMEs to agree to keep regular accounts, which is after all desirable to the degree that the absence of accounts has always constituted a constraint on access to bank credit. Of course, one of the reasons for the absence of accounts for the SMEs is avoidance of direct or indirect taxation.

In benefiting from considerable tax advantages, the SMEs eligible under the 1987 code should be further urged to produce trustworthy and honest financial statements.

It must be acknowledged that the new code adopts a deliberately selective policy in putting greater accent on the sound SMEs that demonstrate a better financial status. This policy accords with the rules of the banking system which, itself, puts the accent on the degree of self-financing of projects through the establishment of strengthened permanent funds.

2. Industrial areas

The definition of an industrial area is given in Law 77-90 of August 10, 1977.

Article 1:

The "industrial areas" have the objective of creating within the limits of each of the important cities of Senegal a center of activity provided with the means for training and supervision, and the technical and financial assistance intended to favor the establishment and development in one location of small and medium Senegalese enterprises of industrial production and services.

Article 2:

Each "industrial area" is managed by a company created for that purpose, called the management company for the "industrial area".

The management companies for the industrial areas are the owners of land and buildings necessary to the running of the activities grouped there. They have as a goal assisting enterprises concerned by the preceding article, and permitting them to develop thanks to the means of intervention provided. These include among others:

- fitting out and equipping of land and of work places;
- all other promotional activities, notably help in the commercialization of products and in the search for administrative markets for works and furnishings.

Article 3:

The management companies for the industrial areas are corporations created in cooperation with SONEPI, with the Chambre des Métiers of the region in question, and finally with the principal local private enterprises.

The management companies are placed under the tutelage of SONEPI.

Under the supervision of SONEPI, the Senegalese State has already introduced industrial areas in five (5) regional capitals of Senegal. Outside the industrial areas, all the regions of Senegal today have established or are on the way to establishing industrial zones.

This set of measures has allowed Senegal to record significant results in this area.

In the five cities of Senegal (Dakar, Thiès, Ziguinchor, Saint-Louis and Kaolack), the introduction of industrial areas has produced the following results:

- number of sheds	69
- financing (million CFAF)	1,586.6
- number of enterprises	47
- investments (million CFAF)	424.1
- salaried jobs	378
- apprentices	221

(Source: SONEPI)

Moreover, installation in an industrial area also makes it possible to benefit from certain tax advantages, with full rights:

- exemption, for imported materials (and, ultimately, their spare parts), from duties and taxes due at entry;
- exemption from transfer and registration fees, the flat-rate tax on profits and, temporarily, the patente license fee.

For small industries, these exemptions are not negligible.

3. Government contracts

In principle, a government contract is granted to the enterprise which is the lowest bidder, except if the latter is foreign and if a competing Senegalese enterprise submits a price which is not more than 10% higher than the foreigner's. This rule is not well respected, above all in a period of budgetary restrictions, and the SMEs have difficulties in obtaining government contracts.

Further, when a SME is the successful bidder on a government contract, it is not evident that it has all the capabilities needed to fulfill its obligations vis-a-vis the State.

However, the most important problem remains that of regulations governing government contracts, which particularly affect SMEs, since the SMEs do not have, in general, financial capacity sufficient for prefinancing themselves. The solutions under consideration (the Caisse Nationale des Marchés guaranteeing prefinancing on the State's account; guaranteed deposit with the Senegalese banks working with the successful bidder of funds allocated to performance of the contract by the State) all come up against the absence of financial leeway on the part of the government agencies which is necessary to allow the SME to respect fully its contractual obligations.

On precisely this subject, it is evident from our discussions with the directors of SONEPI that the average advance on government contracts which solicit SME-SMIs is between 4,5 and 5 million CFAF per contract.

Also, SONEPI would like to see created, on the model of funds it manages, a fund for advances on government contracts, with the goal of prefinancing SMEs for exactly this type of operation.

We entirely approve of this idea and we recommend that a concessional line of credit of 1 million dollars be granted to the State with a view to endowing that fund in advance.

This endowment could be managed either by the Public Treasury or by SONEPI, or by both at the same time, and placed in the Central Bank in a special account created for that purpose.

What is more, a part of this line of credit could be placed as a term loan, generating interest on the basis of a negotiated rate which would supplement the initial endowment.

If this proposal is accepted, we suggest that whatever the formula used, SONEPI be closely associated with the management of this fund, given:

- i/ its recognized seriousness and openness in the management of funds in its charge;
- ii/ its exact knowledge of the needs of the SMEs regarding working capital, and
- iii/ the consistency with which it regularly operates at the level of the SMEs which benefit from its help (training and supervision) and in which SONEPI intervenes, either in the form of capital participation, or in the form of endorsement of short term bank loans.

Finally, for the mobilization of funds the consent of SONEPI would be required after it is assured that the SME has fulfilled the prior conditions for claiming the requested advances.

1/ SONEPI produces a detailed annual report on the activities and operations of the funds entrusted to it. This report is backed by a balance sheet which has been the object of a detailed check by a recognized accountant.

PART II: THE SENEGALESE BANKING SYSTEM AND THE SMALL AND MEDIUM ENTERPRISE:
STRUCTURE, ACTION AND CONSTRAINTS ON THE FINANCING OF THE
SENEGALESE SME

CHAPTER I - THE SENEGALESE BANKING SYSTEM AND THE SMALL AND MEDIUM
ENTERPRISE - SPECIFIC FEATURES AND CONSTRAINTS

Compared to the banking system of developed countries, the Senegalese banking system presents specific features and conceals at the same time the constraints which have their origins in historic relations proper to Senegal.

It is thus that historically the absence of an autonomous process of development has led, among other results, to the orientation of all economic activities towards the exterior.

From that, the tendency of the banks has been to assure, as a priority, the financing of a trade economy whose mechanism turns on two essential commercial operations:

- financing the importation of finished products, among which consumer goods were favored over capital goods;
- financing the exportation of raw materials.

Since independence, the Senegalese banking system, deriving directly from that of metropolitan France, consisted essentially of branches or subsidiaries of the big French banks which extended credit only to enterprises of a certain size. No intervention was carried out to the benefit of the small enterprises, farmers, artisans or tradespeople, the reason being the absence of guarantees or the distance existing between the bank branch and the small enterprises. Also, the large trading companies played the role of intermediaries for the countryside and towns of the interior and redistributed a portion of the credits received, especially to the traders, in the form of advances in kind or in cash.

For the monetary and national authorities, the structure of the banking system inherited from the colonial period did not allow, in the event, the achievement of the objectives of development because, mainly, of the following constraining factors:

- specialization in short term operations for the financing of international trade (import-export);
- banking network reduced to a strict minimum;
- low level of stable resources, demand deposits constituting the primary means of intervention;
- conditions of access to credit fixed according to strict standards which excluded all possibility of entry of Senegalese nationals, because of the inflexible relations with the head office in metropolitan France;
- transfer of financial surpluses to the head offices abroad;
- infrequent financing of investment projects at long and medium term.

When all is said and done, this policy has, instead, encouraged the expansion of the large trading companies.

It is to change this situation that these measures have been promulgated by the monetary authorities in order to bring about the necessary structural changes and to orient the Senegalese banking system toward the realization of national development programs.

The first decade was marked by the creation, in 1960, of a public development bank: the Banque Sénégalaise du Développement became, after its merger with the Crédit du Sénégal in 1964, the Banque Nationale de Développement du Sénégal (BNDS).

The creation of this bank was supposed to respond to two objectives:

- i/ to allow the State to direct the distribution of credit according to the stated development objectives;
- ii/ to assure financing in activities where the action of the commercial banks was non-existent or insufficient because of the risks run (social credit), badly adapted structures (agricultural credit), the tying up of funds advanced (long term).

In practice, the BNDS has turned towards agricultural credit and national enterprises of a certain size.

Between the BNDS and the commercial banks, for their part concerned with the short term, the SMEs had difficulty finding sources of credit suited to their problems.

The second decade was devoted to the amelioration of this situation by the creation of specialized banks (SONAGA, SOFISEDIT) and SONEPI. Moreover, the WAMU monetary institutions have been modified in depth (reform of the banking system in 1973), as were the rules of intervention of the Central Bank (reform of 1975) concerning bank financing policy toward the SMEs.

These measures have been reinforced since 1977 by the implementation of sectoral credit policy.

Still, these measures have remained insufficient and have not eased the bank financing policy toward the SMEs.

This situation is attributable, in part, to the peculiarities and the existing constraints of the Senegalese banking system, and its evolution in the course of recent years has been marked by the following factors:

- 1/ Even though the number of banking establishments has grown appreciably in the course of recent years, the banking system is still marked by the preponderance of the number of banking counters operating (60% of the total) in the Dakar region and its surroundings.

Although an effort has been made to establish certain banks at the regional level, Senegal remains the country among the seven member states of WAMU in which the number of banking counters open in the large cities is the highest (86% of the total), while the Ivory Coast had, in September 1981, 226 counters, of which 111 (49%) were in the large cities.

Further, the effort toward drawing the counters closer together in the interior is attributed to only six banks. These are:

- the BIAOS
- the BICIS
- the SGBS
- the USB
- the BNDS
- and, lastly, the CNCAS.

The ability of the banking system to mobilize rural savings is, therefore, doubtful.

Also, the establishment of counters principally in the regional capitals, and the concentration of operations in certain large banks, are not likely to improve financial intermediation in Senegal.

2/ Despite various efforts made here and there, the banks have stayed chiefly with financing short term activities in certain sectors of economic activity: trade, importation of high-volume consumer products, and, for the past several years, fish and manufacturing.

The financing of investment credits and of long and medium term social credits has been supported chiefly by the former development banks (BNDS, SOFISEDIT) and, lately, by the BHS (housing) and SONAGA (the maîtrisards program).

3/ In spite of the considerable results noted in the way of savings, one can still see a certain preference for household liquidities, which translates into a non-negligible volume of hoarding of money.

Table 3 Liquid Assets of the Monetary Institutions
of Senegal (as of September 30)
in Millions of CFAF

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
1. Circulation of currency	69,877	66,957	63,670	75,257
2. Money supply	258,405	263,204	279,285	288,313
	<u>in %</u>			
Ratio (1)	27.0	25.4	22.8	26.1
(2)				

(Source: BCEAO)

Thus the circulation of currency showed a perceptible growth in 1986 in relation to 1985.

- 4/ The mobilization of savings at the rural level remains inefficient, while the savings collected by the banking network and by the Caisse d'Epargne at the urban level have shown a certain growth, even though it decreased somewhat in 1986.

Table 4. Development of Internal Savings in Senegal
in Billions of CFAF

	<u>9/30/84</u>	<u>9/30/85</u>	<u>9/30/86</u>
<u>Bank Deposits</u>	<u>87.1</u>	<u>105.4</u>	<u>101.8</u>
- Term Deposits	65.4	80.2	72.0
- Special Accounts	21.7	25.2	29.8
. Bank Book Accounts	16.8	20.2	13.6
. Housing Savings Accounts	4.9	5.0	16.1
<u>Deposits in Caisse d'Epargne</u>	<u>1.9</u>	<u>2.4</u>	<u>2.4</u>
Total	89.0	107.8	104.2

(Source: BCEAO)

The fact that part of disposable liquid savings went into the banking channel is attributable to several factors:

- i/ At the rural level the channels for mobilization of savings do not function in a satisfactory manner and the institutions and organizations (banks and the postal administration) responsible for the collection of disposable savings have not proved sufficiently efficient. This is especially true of the postal administration, in view of the relative density of the Senegalese postal network (120 bureaus in all of Senegal).
- ii/ Customers are still not well informed about the products marketed.
- iii/ A fraction of the liquid savings is the fact of a minority strongly attracted if not by a more certain return or profit abroad, then at least by a greater security in its investments. This situation results from the opening to abroad of the WAMU zone of issue to which Senegal belongs. Although this presents certain advantages because of the freedom of transfers, it does none the less constitute a constraint on maintenance of savings, and therefore resources for the banks.
- iv/ The rates used by the banking system for savings accounts are the administered rates, and the variations in the rise of rates in foreign markets, specifically in the French monetary market, do not encourage the individuals with high incomes to maintain liquid savings in Senegal. Thus, in many cases savings were transferred from Senegal to France when it seemed that the interest rates in the French market were higher than those fixed by the WAMU authorities.

Except for the rate of payment used by the Caisse d'Epargne, the interest rate established by the BCEAO for term deposits, cash vouchers and savings accounts has always been the function of the preferential discount rate (T.E.P.) and of the normal discount rate (T.E.N.) of the Central Bank, and has followed the fluctuations, rising and falling, of these two basic rates.

At the moment, the rule followed by the Central Bank for fixing the basic rates is:

$$T.E.P. = T.E.N. - 2.50, \text{ or}$$

$$T.E.N. = T.E.P. + 2.50$$

Furthermore, the minimum rate used for term deposits of more than six months, cash vouchers and term accounts has always been higher than the T.E.P. and lower than the T.E.N.

v/ The interest paid on term deposits, as on demand deposits and savings accounts, is encumbered with the following charges and taxes:

- TPS (tax on productive services): 17% from August 1983 and 7% from March 1987

- IRCM (tax on income from movable assets): 16%

This would indicate that at the present time interest paid on term deposits would use an actual rate of:

$$T - \left(\frac{7T}{100} + \frac{16T}{100} \right), \text{ or } \frac{77T}{100}$$

Otherwise stated, for a term deposit of more than one year and more than 2,000,000 CFAF, the interest rate actually paid is:

$$\frac{77}{100} \times 8.00\% = 6.16\%$$

Finally, on cash vouchers, the TPS is not applicable but the IRCM is subjected to a deduction at the source of 20%.

On the other hand, although the accounts opened at the Caisse d'Epargne are totally untaxed, the rate of return offered is higher than that of the savings accounts opened in the banks.

5/ In relation to 1985, demand deposits of individuals and enterprises showed a net reduction in 1986 because of, specifically, the decision of the Board of Directors of the BCEAO to suspend the obligation to pay interest on these deposits. That non-incentive measure is not of a kind to ease the resource position of the banks.

6/ The Senegalese banking system, an integral part of the WAMU monetary system, is characterized by a relative stability of interest rates. The basic rates of the Central Bank (T.E.N. and T.E.P.) have undergone only five changes since July 1975: two up, and three down.

<u>Period</u>	<u>%</u>	
	<u>T.E.P.</u>	<u>T.E.N.</u>
from 7/1/75 to 4/14/80	5.50	8.00
from 4/15/80 to 4/6/82	8.00	10.50
from 4/7/82 to 4/4/83	10.00	12.50
from 4/5/83 to 3/23/83	8.00	10.00
from 3/24/83 to 9/21/86	7.00	9.50
from 9/22/86 to the present	6.00	8.50

These basic rates determine the rates applied to borrowers by the primary banks, according to the nature of the loans for which they are intended:

T.E.N. + 5 points for normal loans

T.E.P. + 3 points for preferred loans

The rate policy currently adopted differs appreciably from that adopted before the 1973 reform. As a matter of fact, the discount rate of the BCEAO in effect before the monetary reform of 1973 had set a record for a long time in Africa and in the world.

This situation resulted from a choice supported by theoretical principles. Actually, when action was taken in the '50s to decide on a policy of interest rates two sorts of considerations were taken into account, concerning at the same time investments and savings.

In a spirit very much marked by Keynesian theory, investment theses adopted were a decreasing function for the interest rate and savings and an increasing function for income. The principle was accepted that with low interest rates an impulse would be given to investments and, accordingly, to the national income, which would bring about a growing surplus of savings available for the numerous investments. In other words, to promote savings it is necessary first to encourage the entrepreneurs to invest by reducing the level of their financial charges.

This bold policy turned out to be difficult to apply in practice.

- In the first place it was recognized that investments, in particular those carried out by foreigners in African countries, as in most developing countries, are less sensitive to interest rate levels than to those often qualitative elements such as political and economic risks, tax advantages, etc. It is now well known that the elasticity of investments to interest rates is lower in developing countries than in industrialized countries.

- Moreover, it brought about a diversion of savings. On the one hand, in African countries a part of savings, attracted by conditions of usurious returns, is oriented toward marginal activities. On the other hand, in the franc area as a whole, it appeared incompatible with the policy followed in that field by France.

The principle of free transferability opposes the establishment of monetary policies varying greatly in the different franc zones.

Thus, during many years there was a drift of African savings toward France where interest rates are higher.

At a certain time, even public organizations such as the Caisses de Stabilisation and the Caisses d'Epargne placed the major part of their investments in the French financial establishments, notably the Caisse des Dépôts et Consignations.

Taking into account these observations, the African states in the franc zone have progressively detached themselves from their "Keynesianism" in reversing their original propositions. It is more or less implicitly admitted now that investment is little sensitive to interest rates which, on the other hand, are essential for the development of savings.

Concerning ordinary credits, the advances granted by the Central Bank on the resources of the money market declined from 17.6 billion CFAF in 1985 to 15.7 billion CFAF in 1986, while refinancing rose from 128.1 to 133.3 billion CFAF.

Further, regarding the maximum participation authorized by the Central Bank in 1986, recourse to the resources of the Central Bank have been on the low side of the ceilings allowed to banks and financial establishments.

Table 6 Maximum Participation Authorized by the Central Bank
for the Financial Year ending 9/30/86
In Billions of CFAF

	<u>Target</u>	<u>Actual</u>	<u>Difference</u>
Rediscounting to the State	40.1	39.9	- 0.2
Rediscounting to banks and financial establishments			
. Crop credit ^{1/}	20.0	20.3	+ 0.3
. Ordinary credit	<u>127.5</u>	<u>149.0</u>	<u>+ 21.5</u>
Total	187.6	209.2	21.6

(Source: BCEAO)

This situation indicates that, in spite of a relative growth of deposits observed since 1984, notably in the special savings accounts, the deposits collected by the banks have not succeeded in overcoming the shortage of resources, characterized by the low level of the banking system's own funds (34.5 billion CFAF on 9/30/83, 33.1 billion CFAF on 9/30/84 and 38.0 billion CFAF on 9/30/85).

What is more, recourse to loans from foreign banks has not been sufficient to limit recourse to the resources of the Central Bank. In reality this situation represents an unbalanced financial structure of the banking system, revealing the low level of resources in relation to uses.

^{1/} Indicative.

7/ The uses-resources imbalance of the banking system, which is greatly accentuated since 1983, represents a global situation of non-liquidity of the banking system, liquidity being defined as the ability of a bank to use a certain number of assets with a view to realizing payments without delay.

However, it should be emphasized that this situation of non-liquidity of the banking system varies markedly from one establishment to another.

Certain banks, as a result of a prudent policy of use of resources, an active search for deposits, and loans granted them by foreign banks, are able to free up a cash flow surpluses which are placed in the money market. The other banks show a deficit, which is the case for the BNDS, the USB, SOFISEDIT and, to a lesser degree, the MFLS, the BSK and SONABANQUE.

The group of banks which enjoy a satisfactory cash flow is made up of CITIBANK, BCCI, BHS, SGBS and BICIS. Between these two groups are the BST, BIAOS and CNCAS.

Now, it is precisely the banks with a comfortable cash flow, notably CITIBANK and BCCI, which are not involved in the financing of SME/SMIs

The tight cash flow situation of certain deficit banks is the origin of the appearance of debit balances at the Central Bank level, above all after the entry of Mali in 1984 when the BCEAO should have rejected its portfolio of paper not admissible for refinancing.

Furthermore, the Central Bank kept in its portfolio quasi-frozen credits relating to the ex-ONCAD debt (67.5 billion CFAF) and the debts of the cooperatives (O.C.D.) for 10 billion CFAF.

This indicates that the possibilities of access of primary banks to refinancing of ordinary credits by the Central Bank are frozen at 77.5 billion CFAF, until the State settles in full the debts of ex-ONCAD and OCD.

It can be added that the Central Bank participation included 12 billion CFAF in debit accounts on 9/30/86.

It goes without saying that the burden of frozen credits and refinancing by the Central Bank reduces correspondingly the access of primary banks to the resources of the Central Bank, and that SME/SMIs are the first to be penalized.

8/ The non-liquid situation of certain banks stems from the progressive deterioration of their portfolios.

According to the Central Bank ^{1/} the growth of doubtful and contentious loans, which rose by 14.3% to the end of September 1984, went from 19.2 billion CFAF to 19.8 billion CFAF at the end of September 1985, or an increase of 3.1%.

The degradation rate of the portfolio of the banks, in a calculation closely related to the total of the doubtful and contentious loans, rose slowly according to the BCEAO: from 5.0% in 1983, it went to 5.3% in 1984, then to 5.5% in 1985.

In 1985, the verified unsound credit expansion was concentrated in four banks, which moreover suffered from serious cash flow problems.

In reality, the degradation of the portfolio of the banks is much more important than it might appear.

On the basis of available studies and the latest accounts as of 9/30/86, the volume of doubtful and contentious loans come to 31.7 billion CFAF.

Compared to 289.1 billion CFAF of ordinary loans (outside of ONCAD and OCD) the rate of degradation of the banks rose to 10.96%. However, the volume of doubtful loans of certain banks still appears minor.

^{1/} Note d'informations et statistiques No. 354 of November 1986.

For example, it is mentioned in a communication of the BCEAO Agence nationale from the joint seminar with COFEB-BIT of October 1986, 1/ that the analysis of BCEAO mission reports available on several Senegalese banks emphasized that the average rate of degradation of the banks was in the neighborhood of 56.6%!

Also, it is in this context of degradation that the problem of access to bank credit by Senegalese SME/SMIs is posed.

The financing of SME/SMIs will not find a clear solution as long as the liquidity of the banking system is not re-established. This cannot be done except by means of a policy for the recovery of the banking system, which necessitates:

- implementation of a selective and restrictive credit policy;
- reinforcement of bank resources by:
 - . increase of their own funds;
 - . settlement by the State of arrears of the domestic public debt. This measure should contribute greatly to the restoration of liquidity of banks whose cash flow has been heavily encumbered by direct loans (ONCAD and OCD debts) or indirect loans (endorsed loans) on the State and on certain private enterprises which are creditors of the State.
 - . settlement of loans to businesses in liquidation;
 - . recovery of frozen, doubtful or contentious loans in the private sector;
 - . recovery of the financial situation of certain enterprises which have received bank loans;
- control of other bank charges/burdens;
- increase of productivity;
- a more balanced sectoral division of bank loans involving all banks in the financing of sectors of high risk and of profitable credits, ultimately to maintain a certain balance within the Senegalese banking system.

1/ "Situation du portefeuille des banques et évolution des crédits aux petites et moyennes entreprises: - BCEAO - Dakar Agency

CHAPTER II: THE CENTRAL BANK OF WEST AFRICAN STATES (BCEAO)

A. BCEAO ACTION IN FAVOR OF SMALL AND MEDIUM ENTERPRISES OWNED BY NATIONALS

1. BCEAO action before the 1975 monetary reform

Before the 1975 monetary reform, the former Central Bank was involved in promoting the creation of National Guarantee Funds in the States of the Monetary Union in favor of small and medium enterprises owned by nationals, to give these SMEs guarantees permitting them access to bank credit. In addition to participating in the capital of the Guarantee Funds, the Central Bank had taken especially favorable measures for Senegalese small and medium enterprises, with the endorsement of these Funds. Thus, this kind of short term credit was by rights rediscountable with the Central Bank, whatever the percentage of the guarantee retained by the Fund.

As for medium term credit granted the SMEs with the endorsement of the Guarantee Funds, they also had excessive advantages, notably:

- admissability in the Central Bank's portfolio, subject to meeting the other required conditions, the endorsement being considered as satisfying the conditions of solvency;
- limitation to 10%, instead of 20%, of the self-financing required. The additional 10% could thus be covered by a loan extended from non-monetary resources.
- increase the Central Bank's intervention ceiling quota from 50% to 80%;
- exemption from the waiting fee (0.15%) and commitment fee (0.25% which could be raised to 0.50% for part of the loan repayable after 5 years).

Furthermore, the short and medium term credits granted the SMEs with the endorsement of a Guarantee Fund could enjoy a general mobilization with the Central Bank. Also the banks' margin on these credits was limited to 3% instead of 5%.

All of these measures aimed at favoring simultaneously the increase of credits to SMEs and at the improvement of their management by favoring the intervention of the national guarantee funds whose actions seemed essential for the Central Bank.

That important action on behalf of the SMEs has been reinforced and diversified by the Central Bank's new rules of intervention established July 1, 1975.

Indeed, in defining the new monetary and credit policy, favorable measures had been decided upon for SMEs, both from the standpoint of the interest rates to which they are subjected, and that of the rules of distribution of bank credits.

2. Central Bank rate policy and financing of SMEs after the 1975 monetary reform

As indicated on page 42, the relatively low level of the interest rates applied in the BCEAO area compared to foreign rates had favored substantial investments outside of the WAMU of capital generated by the national economies.

This movement of disinvestment and capital flight was accompanied by a marked tendency among all entrepreneurs to make full use of all possibilities of bank credits in the BCEAO area, in order to benefit from rate conditions more advantageous than those of foreign resources. Because of the modest size of savings in the WAMU states, this behavior actually exerted appreciable pressure on monetary issue.

It is mainly in consideration of those phenomena, increased by the freedom of transfer which characterizes the franc area, that the Council of Ministers in its Directives on General Monetary and Credit Policy, has judged it "indispensable that the interest rates within the Union do not differ significantly from those in force on the foreign money markets".

Taking into account this new orientation has thus led to an increase in all creditor and debtor interest rates in order to fix, within the Union, the available funds generated by the national economies.

That is how the Central Bank discount rate has increased from 5.50% to 8%, representing the statutory basic rate of credit operations of the banks (normal discount rate).

However, in order not to hinder the financing of certain essential activities by a generalized increase in debtor conditions, the new plan adopted by the Council of Ministers and the Board of Directors on May 2 and 3, 1975, and put into effect July 1, 1975, provided for a preferential system, in the form of a preferential discount rate (5.50%) and preferential bank conditions for credits financing:

- the marketing of local agricultural products;
- Senegalese small and medium enterprises whose outstanding credits do not exceed 20 million CFAF;
- the needs of the States and local governments;
- as well as the construction of the first principal residence of the nationals of the Monetary Union.

In defining this preferential system, the national authorities of the Union were guided by the concern to avoid an extension of its range of application in order to give the new rate policy, which must be based essentially on a statutory rate (the normal discount rate), all of its significance and efficiency.

That is how, the maximum amount of 20 million CFAF credit retained for national small and medium enterprises has been considered a qualifying criterion for defining that category of economic agents.

Furthermore, the limitation of its range of application of preferential conditions has been at the origin of the recommendations made by the WAMU Council of Ministers tending to establish national subsidy funds in the WAMU States in order to aid the enterprises not granted the preferential discount rate but whose development the authorities intend to facilitate.

Finally, the margins received by the banks on the credits to SMEs have been regulated and fixed at 3% maximum against 5% for other enterprises.

The fundamental principles of the rate policy of the Reform, which make the application of preferential rates an exception, have been reaffirmed on many occasions by the authorities of the Union.

However, given the incidence of generalized inflation on the situation of the SMEs, the Central Bank authorities decided in April 1979 to increase from 20 to 30 million CFAF, the maximum amount of credit retained for this category of enterprises.

As for setting a maximum of 30 million CFAF, below which the SMEs can benefit from the preferential discount rate, the decision of the Central Bank was taken on the basis of the following considerations:

a) At the level of the national small and medium enterprises:

- i/ their reduced size and production capacity do not allow them to benefit from the advantages of economies of scale capable of offsetting the effects of the rise in price of production factors;
- ii/ the SMEs are in most cases concentrated in the service industries where inflationary tensions are sharp;
- iii/ the evolution of prices has a significant impact on the activities of SMEs, characterized by the low level of their own funds and self-financing.

Under these conditions, the ceiling of 30 million CFAF bank credits appears modest owing to the difficulties previously noted.

b) At the level of the monetary policy, the data collected, as well as direct experience, made apparent the diversity of situations in the WAMU States in the face of inflationist pressures.

Furthermore, the annual average rate of inflation had varied appreciably from one State to another. This could, at first, lead to retaining differentiated ceilings, taking into account the actual evolution observed in each State.

But the modulation of thresholds is not compatible with the principle of solidarity existing within the Union and which carries with it equal treatment of the States as to access to Central Bank resources.

This is one of the constraints of Senegal's banking system which, because of its membership of the Union, is obliged to conform to the principle of unity of the monetary policy defined for all WAMU member-States.

It is clear that because of the disparities in development levels observed among the different States of the WAMU, the ceiling of 30 million CFAF is more suitable for countries such as Bénin and Burkina Faso than for a country such as Senegal where SMEs have for more substantial needs than those in the first two countries cited.

c) As far as monetary and credit policy is concerned, the extension of the range of application of the preferential discount rate, through increase of the thresholds related to credits financing the national small and medium enterprises, could result in increased resort of the banks to the resources of the Central Bank in order to use to the maximum the additional possibilities for refinancing at lower cost.

The monetary authorities believe that the risk of credit expansion is all the more important because, in the Union, the banking system remains characterized by its strong dependence on the Central Bank for the financing of its loan portfolio.

Therefore, concerning credit demands, the monetary authorities have considered that a policy of low interest rate could lead to an unwarranted use of bank loans related not to the actual needs of the enterprises nor to the financial profitability of their operations, but to the desire to take advantage of preferential conditions, a behavior which could hinder any self-financing policy.

Consequently, the definition of SMEs' credit ceilings should not result in a marginalization of the normal discount rate inasmuch as, for the Union authorities, the national subsidy funds were intended to avoid such a situation.

Actually, the Union authorities consider that, according to the fixed ceiling, the refinancing at privileged rates, referred to total refinancings, can reach relatively high percentages. Thus, this would result in a n appreciable decrease in the average cost of the Central Bank's refinancing which could be at a level incompatible with the interest rate policy advocated since 1975 by the Union authorities and whose application has led to readjustments on five occasions, of the rates in force in the Union area.

3. Central Bank intervention rules for refinancing of credits granted to SMEs

The interest rate being only one factor among others in the functioning of the enterprises, the monetary authorities have considered that any SME promotion activity based on that single factor is inoperative because of:

- i/ their management, often characterized by a certain precariousness;
- ii/ market conditions made difficult by the multiplication of small businesses and their concentration in a few sectors of the service industries;
- iii/ the difficulties of access to bank credit because of the structural weakness of these enterprises.

Therefore, in order to complement interest rate policy, the Central Bank has provided credit distribution facilities particularly favorable to the SMEs' access to bank credit.

The first facility provides that National Credit Committees have the possibility of reserving part of the Central Bank global loan for the refinancing of credits granted to SMEs.

Further, the Central Bank intervention rules provide that, in the framework of the control for credit qualification, the National Credit Committees can impose to the banks and financial establishments to direct a determined part of their financings to the needs of national enterprises.

However, the monetary authorities consider that this selective approach can and must be reinforced by measures directed to promoting only the enterprises owned by nationals and presenting solid solvency guarantees in financial and operational terms, in order to limit payment incidents frequent in the SME sector and which can be a serious handicap for the implementation of a sound credit distribution policy.

The second incentive provides that, within the 30 million CFAF limit, the credits to SMEs can be the object of a global mobilization with the Central Bank, and the presenting banks are required to attach the list of recipients to the mobilization request.

With this end in view, the Central Bank reserves the right to maintain control over the effectiveness of the credits thus refinanced.

Within the limits of the 30 million CFAF, no financial criterion is applied and therefore the SMEs are not required to furnish recent accounting documents.

Finally, for loans to SMEs whose outstanding borrowings do not exceed 30 million CFAF, the portion mobilizable by the Central Bank can reach:

- up to 100% for short term credits, and
- 90 % for medium and long term credits.

In any case, the loans provided by the banking system to the SMEs cannot benefit from the Central Bank's maximum intervention quotas as defined above, if the short, medium and long term outstanding loans exceed the 30 million CFAF ceiling.

However, concerning the details of implementation of preferential conditions in favor of credits to SMEs owned by nationals, the interpretation of the provisions of Article 5-1 of the Intervention Rules has in practice raised certain questions:

- Should the 30 million CFAF thresholds be considered as a maximum, or an average outstanding loan not to be exceeded (over a year, for example)?
- Can accidental overruns be allowed? How are the rates applied in case of outstanding loan within and beyond the 30 million CFAF threshold?

In practice, three interpretations of the provisions of Article 5-1 of the Intervention Rules, fixing the conditions for access to the preferential discount rate, were possible:

- the first was to apply differentiated rates (the preferential discount rate or the normal discount rate) from month to month according to the level of credits used by the small or medium enterprises;
- another interpretation could lead one to consider that it is the average uses of credit over a determined period (one year for example) which constitutes the reference threshold for applying the preferential discount rate;
- finally, the 30 million CFAF amount could be defined as the maximum credit open to small and medium enterprises owned by nationals, which must not be exceeded on pain of losing the benefits of preferential conditions.

It is this third interpretation which has been retained by the Central Bank.

Beyond the 30 million CFAF ceiling, credits to SMEs can no longer be refinanced with the Central Bank by means of a bill of global mobilization but only by individual bills.

In that case, the credits to SMEs are not only ineligible to the T.E.P., but the criteria applied are constraining and, under these conditions, the BCEAO makes sure that the subscriber is solvent.

Indeed, the mobilization bills presented by the banks must meet certain conditions to be admissible to the Central Bank portfolio.

In particular they must be drawn on solvent enterprises, capable of reimbursing without difficulty the credits they receive.

In practice, the Central Bank classifies the signatures of the credit beneficiaries in 1st, 2nd or 3rd categories, appraising their net credit standing, their total debts, their net revolving funds, and their profitability, based on recent accounting records.

The Central Bank can accept in their portfolio only signatures of the 1st and 2nd categories. The bills in the 3rd category, even though representative of State-guaranteed credits, are excluded from refinancing.

The Central Bank defines the categories as follows:

The 1st category: concerns the enterprises:

- whose financial position, in solid equilibrium, shows sufficiently ample net revolving funds,
- whose net credit standing is in line with its level of indebtedness, taking into account its activity,
- whose activity produces a satisfactory profit.

The bills carrying a 1st category signature are considered admissible to the Central Bank with no other reservation than that relating to a global or prescribed limitation of the Central Bank interventions.

The 2nd category concerns enterprises:

- whose balance sheet shows a weak financial balance,
- whose net financial standing is insufficient compared to its level of indebtedness,
- whose activity is in deficit or insufficiently profitable but can be improved.

The bills carrying a 2nd category signature will be considered as needing increased follow-up and their acceptance in the Central Bank's portfolio can be subordinated to the fulfillment of special conditions (guarantee fees, submission of recent accounting records, etc.).

The 3rd category: it concerns the enterprises whose signature is excluded from the Central Bank's refinancings.

Within the definitions of these different categories, the classification of signatures conforms to the following financial and solvency criteria:

* 1st category: the enterprises whose ratios reflect the following configuration:

- <u>Net revolving-funds</u> Gross revolving-funds	20%
- <u>Net credit standing</u> Total commitment	30%
- <u>Cash-flow</u> Turnover	5%

* 2nd category: enterprises presenting the following ratios:

- <u>Net revolving-funds</u> : Total commitment	between 10 and 20%
- <u>Net credit outstanding</u> : Total commitment	between 10 and 30%
- <u>Cash-flow</u> : Turnover	between 0 and 5%

* 3rd category: the enterprises with non-existent cash-flow, net credit outstanding less than 10%, and whose net revolving fund is 10% lower than the gross revolving-fund

It should be noted that, besides the first two facilities previously outlined, the Central Bank has taken other measures of specific action and general scope, capable of increasing the possibilities for financing SMEs.

The measures of specific action concern:

- i/ the implementation as from April 1976, of a refinancing system applicable to bank credits granted to Senegalese for the purchase of foreign assets;
- ii/ the participation of the Central Bank in the capitals of the companies of promotion, organization or financing of SMEs: SONEPI, SONAGA, SOFISEDIT.

The measures of general scope were the following:

- a/ elimination of the distinction between commercial banks and development banks: this measure has in view the participation of all banks in the financing of economic development;
- b/ eligibility to the Central Bank refinancing of long term bank credits, if they have no more than ten years to run.

B. LIMITS AND CONSTRAINTS TO THE ACTION OF THE BCEAO IN FAVOR OF THE SMEs

1. Rates

From experience, it appeared that the preferential rate conditions did not prove encouraging, especially at the level of the primary banks. On average, the portion of financings granted to the SMEs by the banks from 1976 to 1986, represented only 5% of the total normal credits.

This average could indicate that the primary banks have shown little enthusiasm in extending credits to small and medium enterprises. This situation is imputable to several reasons:

- i/ access to the Central Bank's resources at preferential conditions can appear, at first, encouraging for the primary banks, to the extent that, for credits refinanced at the T.E.P., the interest rate applied by the Central Bank is by 2.5 points lower than that applied to credits eligible to the T.E.N.

However, the banks' margin on the credits to SMEs is a 3-point ceiling above the T.E.P., whereas it is 5 points for normal credits in addition to the T.E.N.

Thus, if one considers only the credits refinanced by the Central Bank, the variance of costs over resources, favorable to credits subjected to the T.E.P., would be larger than the variance over the margins for normal credits supporting the T.E.N.

Normal credits refinancable at the:

	<u>T.E.N.</u>	<u>T.E.P.</u>	<u>VARIANCE</u>
Costs of resource	8.50%	6.00%	- 2.50%
Authorized margins	<u>5.00%</u>	<u>3.00%</u>	<u>+ 2.00%</u>
Total	13.50%	9.00%	- 0.50%

In theory, this should encourage primary banks to finance SMEs within the 30 million CFAF limit.

In practice, this assumption is a theoretical one because:

a/ the credits to SMEs are considered high risk by the primary banks ones, and if they are not regularly repaid, it is those banks alone that will support the risk. since they must reimburse the mobilized portion to the Central Bank at maturity;

b/ the Central Bank does not give the banks an automatic right to be refinance at the preferential discount rate and above all it encourages the primary banks to have recourse to the resources of the monetary market.

The Central Bank's concern is to avoid that the bank resources obtained through rediscount at the preferential discount rate be diverted from their destination, to ultimately provide the beneficiaries with facilities for more profitable investments on the money market.

ii/ for the credits or advances to SMEs whose total outstanding credit does not exceed 30 million CFAF, the BCEAO statutory scale requires the banks to calculate debit interest only on the basis of the T.E.P. +1% minimum and 3% maximum, whether these credits have been refinanced or not by the Central Bank.

Thus, if one considers the credits not refinanced by the Central Bank, the maximum debit interest rates applicable to SMEs within the 30 million CFAF limit on one hand, and to normal credits supporting the T.E.N. on the other hand, have been estimated from July 1, 1975 to date, as follows:

<u>Period</u>	<u>Maximum debit interest rate</u>	
	<u>T.E.P. + 3%</u>	<u>T.E.N. + 5%</u>
from 07/01/75 to 04/14/80	8.50%	13.00%
from 04/15/80 to 04/06/82	11.00%	15.50%
from 04/07/82 to 04/04/83	13.00%	17.50%
from 04/05/83 to 03/23/86	11.00%	15.50%
from 03/24/86 to 09/21/86	10.00%	14.50%
from 09/22/86 to date	9.00%	13.50%

Thus, when the primary banks do not have recourse to the resources of the Central Bank, they gain nothing from financing the SMEs whose outstanding credits do not exceed 30 million CFAF, since they have the possibility to receive 4.5% additional interest rate on credits supporting the T.E.N.

For, in the final analysis, why should the primary banks be required to finance the SMEs if, on the resources side, they face cost constraints which do not encourage them at all to forego the rate differential of 4.5%?

If BCEAO refinancing and own funds are excluded and only deposits and borrowings from correspondent considered, the cost to the banks of that category of resources is as follows:

<u>Resources and related costs</u>	<u>Financial Years</u>		
	<u>1979/80 1/</u>	<u>1980/81 2/</u>	<u>1981/82 3/</u>
	<u>in millions of CFAF</u>		
1. Resources			
Credit accounts (deposits)	157,661	164,714	196,874
Resources from correspondents	<u>26,149</u>	<u>26,263</u>	<u>26,178</u>
Total	183,810	190,977	223,052
2. Costs			
Interest on credit accounts	6,904	9,443	12,782
Interest on resources from correspondents	<u>3,848</u>	<u>2,904</u>	<u>2,523</u>
Total	10,758	12,347	15,305
	<u>(in %)</u>		
Average rate for borrowed capital	5.85	6.46	6.86
Note: T.E.P.	5.50 and 8.00	8.00	8.00 and 10.00
	<u>1982/83 4/</u>		
		<u>1984/85 5/</u>	<u>1985/86 6/</u>
		<u>in millions of CFAF</u>	
1. Resources			
Credit accounts (deposits)	220,662	229,009	206,624
Resources from correspondents	<u>27,767</u>	<u>34,412</u>	<u>29,042</u>
Total	248,429	263,421	235,666
2. Costs			
Interest on credit accounts	15,108	13,958	11,341
Interest on resources from correspondents	<u>1,906</u>	<u>5,482</u>	<u>2,612</u>
Total	17,014	19,440	13,953
	<u>(in %)</u>		
Average rate for borrowed capital	6.85	7.38	5.92
<u>As a reminder:</u> T.E.P.	10.00 et 8.00	7.00	6.00

(Source: BCFAO)

- 1/ CITIBANK, BHS, BCS, SONABANQUE, CNCAS, BST, MFIS not included
2/ BCCI, BCS, SONABANQUE, CNCAS, BST " "
3/ BCS, SONABANQUE, CNCAS, BST " "
4/ SONABANQUE, CNCAS, BST " "
5/ MFIS, CNCAS, BST, BCS " "
6/ MFIS, SOFISEDIT, BCS, BNDS and BST " "

Thus, even though the banks had recourse to the Central Bank resources, they would not have been encouraged to finance the SMEs since they could get money at a lower cost for lending at a borrower's interest rate 4.50% higher than that applicable to the SMEs within the 30 million CFAF limit.

Furthermore, the authorized margin of 3% above the T.E.P. does not cover even half the overhead and, amortization costs, and reserves for risks of the credits committed.

For the last two financial years, the overhead cost and amortization costs accounted for 5.09% and 5.90% of the credits in 1984/85 and 1985/86, and the reserves on doubtful loans amounted to 1.36% and 1.49% of the same credits.

But relative to the capital invested, such percentages are as follows:

	<u>1984/85</u>	<u>1985/86</u>
Overhead + amortization costs	3.75%	4.64%
Reserves on doubtful loans	0.96%	1.16%

Consequently what then would have been the banks' margin if they had been induced to finance the SMEs within the 30 million CFAF limit, in comparison with the credits supporting the T.E.N.?

<u>Hypothesis 1</u>	Credits refinanced at			
	T.E.P.		T.E.N	
	1984/85	1985/86 1/	1984/85	1985/86
	(%)			
Maximum borrowing interest rate	11.00	11.00	15.50	15.50
-Cost of refinancing	<u>8.00</u>	<u>8.00</u>	<u>10.50</u>	<u>10.50</u>
Gross margin on refinancing	3.00	3.00	5.00	5.00
-Overhead costs + amortization 2/	3.75	4.64	3.75	4.64
-Reserves on doubtful loans	<u>0.96</u>	<u>1.16</u>	<u>0.96</u>	<u>1.16</u>
Net margin before other bank proceeds, recovery on reserves, exceptional charges and company taxes	-1.71	-2.80	-0.29	-0.80

<u>Hypothesis 2</u>	Unrefinanced credits			
	T.E.P.		T.E.N	
	1984/85	1985/86 1/	1984/85	1985/86 1/
	(%)			
Maximum borrowing interest rate	11.00	11.00	15.50	15.50
-Cost of deposits and borrowings with correspondents	<u>5.85</u>	<u>6.46</u>	<u>5.85</u>	<u>6.46</u>
Gross margin on costs of resources	5.15	4.54	9.65	9.04
-Overhead costs + amortization 2/	3.75	4.64	3.75	4.64
-Reserves on doubtful loans 2/	<u>0.96</u>	<u>1.16</u>	<u>0.96</u>	<u>1.16</u>
Net margin before other bank proceeds, recovery on reserves, exceptional charges and company taxes	0.44	-1.26	4.93	3.24

In any case, it turns out to be more profitable and to provide greater incentives for the banks to grant credit to enterprises that normally support the T.E.N. plus 5 points.

1/ Maximum hypothesis, although the rates were reduced by 1 point from 03/23/86.

2/ Compared to invested capital.

In the present state of the banking system, the rate differential between uses and resources, which is the net bank margin, does not at all allow the banks to finance the SMEs at the rate fixed by the BCEAO, for a volume of credits not exceeding 30 million CFAF.

Therefore, the BCEAO regulations are not compatible with sound bank management and as long as the present rates are in force, it is to be feared that access of the SMEs to bank credit will remain limited for a long time.

Consequently, what interest rate would be compatible with a policy for the promotion of the financing of the SMEs?

We will try to answer that question in the next chapter. But it is already appropriate to point out that the banks have to face high risks of default which obliges them to place high interest rates on uses.

In addition, at the level of the resources, the banks are obliged to remunerate the borrowings and deposits collected at rates which cannot be different from those applied on foreign markets, notably in France. That is a constraint inherent in the franc area.

iii/ The Interest Subsidy Fund was instituted by decree No. 81-135 of February 16, 1981. The management of the Fund was assigned to SOFISEDIT.

The Fund is intended to grant interest subsidies to SMEs whose outstanding credits exceed 30 million CFAF. It is not operative yet for lack of sufficient resources to start its operations.

SOFISEDIT has estimated at 225 million CFAF the first annual contribution for the Fund to be able to examine subsidization for outstanding credits of 5 billion CFAF extended by the bank to the SMEs of the targeted sectors.

SOFISEDIT is attempting to obtain this contribution through the resources defined by the Decree establishing the Fund. The funds resources would come from:

- all or part of the BCEAO's profits reverting to Senegal,
- budget appropriation,
- allocation of specific resources,
- foreign resources.

Difficulties encountered in obtaining funds are certainly related to the subsidy nature of the rebate.

The rebate would be applied a differential between the maximum rate authorized by the BCEAO (T.E.N. + 5%) and the preferential discount rate, +3%, for the SMEs eligible to the T.E.P. Within the permitted limits, this differential varies from 4.5% to 1.5%. The period of the rebate, after being estimated from the period of the credit extended, would be fixed at 5 years, with possibility of extension, taking into account the position of the enterprise and its financial performances.

The portion of the loan to be subsidized has been fixed at 70 million CFAF maximum per recipient. The proposed selection criteria should permit choosing among several enterprises fulfilling the eligibility criteria and above all, encourage the enterprises to orient their policies toward the GOS concerns with respect to uses, decentralization, etc.

The assessment would focus on:

- location of the enterprise;
- employment policy: enterprises having at least 10 employees, including a university graduate;
- the enterprise's financial charges, when these amount to 3% of the annual turnover;
- profitability, if the financial charges are more than 30% of the gross operating income before financial costs; and if the enterprise has not made a net profit which makes any subsidy unnecessary;
- exports, if the enterprise exports at least 20% of its production.

SOFISEDIT's hypotheses concern outstanding subsidized credits of 102,797 million CFAF for the first six years and the fund's resource requirements during that period would be estimated during this period at 4,627 million CFAF in the case of a rate differential of 4.5% and 2,056 million CFAF for a rate differential of 2%.

In the current Senegal context, characterized by a policy of restrictions and constraints on resources, to realise both the operation and requirements of this fund is utopic.

For, in fact, the SMEs face fewer constraints on the rate side than on the loanable funds side.

In the course of our discussions with a few SMEs visited, it appeared that the small and medium enterprises were not concerned by the high interest rates compatible, according to them, with the profit margins they can make.

The concern of the SMEs is rather more to obtain a volume of credits corresponding to their investment and revolving fund needs. In fact, for the SMEs the essential problem is to have access to bank credit and to secure the guarantees that must be offered.

Therefore, the existence of subsidy funds is of no use, and the mobilization of the resources needed would be much more useful for the establishment of a system of guarantees, reinforcement of own funds and improvement in the management of the SMEs/SMIs.

Table 7

Data on the position and operation of the banks

(In million of CFAF)

	<u>1984/85</u> 1/	<u>1985/86</u> 2/
A. Resources out of own funds		
1. <u>Deposits</u>	229,009	206,624
- GOS	*21,915	*18,420
- Other operators	194,995	178,551
. regular accounts	88,923	80,098
. time deposits	80,912	70,372
. special regime	25,160	28,081
- Miscellaneous (other due amounts)	*12,099	* 9,653
2. <u>Central Bank</u>	<u>146,701</u>	<u>89,624</u>
3. <u>Banks and correspondents</u>	<u>34,412</u>	<u>29,042</u>
<hr/>		
TOTAL A	410,122	325,290
<hr/>		
B. Credits		
- GOS	<u>14,928</u>	<u>4,434</u>
- Other operators	352,527	274,808
of which		
doubtful and unrepaid loans	* <u>25,120</u>	* <u>26,859</u>
<hr/>		
TOTAL B	367,455	279,242
<hr/>		
C. Obligated Funds	499,139	355,467
<hr/>		

Source: Situation des banques

Table 7 (continued)

Data on the position and operation of the banks

(In million of CFAF)

	<u>1984/85 1/</u>	<u>1985/86 2/</u>
D. <u>Bank charges</u>		
1. <u>Deposits</u>	<u>13,958</u>	<u>11,341</u>
- GOS	1,141	913
- Other operators	12,212	9,865
. regular accounts	*1,683	*350
. time deposits	*8,761	*7,675
. special regime	*1,768	*1,840
- Miscellaneous	245	563
2. <u>Central Bank</u>	<u>10,195</u>	<u>7,587</u>
3. <u>Banks and correspondents</u>	<u>5,482</u>	<u>2,612</u>
<hr/>		
TOTAL C	29,275	21,540
<hr/>		
E. <u>Overheads costs</u>	17,376	15,111
F. <u>Depreciation</u>	1,363	1,382
G. <u>Reserves for doubtful loans</u>	4,819	4,113
H. <u>Bank proceeds</u>		
1. <u>Interest and fees on loans</u>	51,475	39,360
2. <u>Other bank proceeds</u>	2,885	2,767
<hr/>		
TOTAL H	54,360	42,127
<hr/>		

(Source: Situation des banques)

1/ excluding CNCAS, MFIS, BST, BCS

2/ excluding MFIS, SOFISEDIT, BST, ASSURBANK AND BNDS

Table 8

BANKS: RATIOS AND INDICATORS
(%)

	<u>1984/85</u> <u>1/</u>	<u>1985/86</u> <u>2/</u>
A. <u>Costs of resources (bank charges/resources)</u>	7.13	7.71
1. <u>Costs of deposits</u>	<u>6.09</u>	<u>5.48</u>
of which		
. regular accounts	* 1.89	* 0.43
. time deposits	* 10.82	* 10.90
. special regime	* 7.02	* 6.55
2. <u>Cost of BCEAO advances</u>	6.94	8.46
3. <u>Cost of borrowings from banks and correspondents</u>	15.93	8.99
<hr/>		
B. <u>Rate of return on credits</u> (interest and fees/credits)	14.00	14.09
<hr/>		
C. <u>Operating ratios</u>		
1. Overhead/bank proceeds	31.96	51.13
2. Overhead + depreciation/credits	5.09	5.90
3. Overhead + depreciation/capital committed	3.75	4.64
4. Reserves on doubtful loans/interest + fees	9.36	10.44
5. Reserves on doubtful loans/credits <u>3/</u>	1.36	1.49
6. Reserves on doubtful loans/capital committed	0.96	1.16
7. Reserves on doubtful loans/doubtful and unrepaid	19.18	15.31
<hr/>		
D. <u>Structural ratios</u>		
1. Doubtful and unrepaid/credits committed <u>3/</u>	7.12	9.77
<hr/>		

(Source: Situation des banques)

1/ not including CNCAS, MFIS, BST, BCS

2/ not including MFIS, SOFISEDIT, BST, ASSURBANK and BNDS

3/ not including credits to GUS

2. Sectoral Credit Policy

The sectoral credit policy was established in Senegal in February 1977. Its purpose was to allow each country to direct bank credits toward activities it wishes to encourage under its economic policy.

Since 1977, Senegal's National Credit Committee has been drawing up a list of sectoral priorities that the banks are requested to observe in granting non-seasonal credits. The definition of priority sectors draws largely from that retained in the various economic and social development plans. Therefore, in order to encourage the development of enterprises owned by national and the Africanization of existing enterprises, the Central Bank is supposed to refinance, as a priority and at a preferential rate, the credits to SMEs not exceeding 30 million CFAF.

The sectors considered as a priority are currently agriculture, animal husbandry, fishing, industry/manufacturing, arts and crafts, tourism, low-income housing, civil and rural engineering, building and construction works, transportation, as well as the acquisition of assets by nationals.

The system of prior authorizations, applied since 1976, is used by the Central Bank as a privileged means for orienting the credits towards the priority sectors.

In 1977, the objectives set forth by the National Credit Committee were renewed for 1978.

In 1979, a new policy was defined and renewed for 1980 and 1981.

On July 5, 1982, the National Credit Committee again defined the objectives for 1982, which remained in force in 1983 and 1984.

The general orientations set forth in 1985 were renewed for 1986. The priority sectors were to benefit by at least 71% of the bank loans, allocated up to 31% for medium and long term financing and to 40% for short term financing. Financing should not exceed 29%, of which 25% for trade.

The credits subjected to the sectoral policy are made up of all the direct loans extended by the banks, exclusive of crop credits and regular credits to the following borrowers:

- The ex-ONCAD (agricultural program and crop credits reclassified as regular credits; the loans supported by peanut cooperatives are considered within the agricultural sector);
- Oil producers (SONACOS and S.E.I.B.);
- SODEFITEX;
- Caisse de Péréquation et de Stabilization des Prix (CPSP);
- Société Africaine de Raffinage (SAR);
- Financial institutions (SONAGA, SOGECA, LOCAFRIQUE - Dakaroise d'Equipment);
- Credits less than 10 million CFAF not declared individually for registration in the Central Bank's book of risky credits

Furthermore, to avoid an allocation of credit detrimental to nationals, the amount granted to the latter is fixed at at least 60% of all total credits allocated.

As of December 1986, the results were as follows:

Table 9

Evolution of the allocation of credits in 1986

(in million of CFAF)

	<u>Realizations</u>		<u>Objectives</u>
	<u>Amount</u>	<u>%</u>	<u>%</u>
<u>Priority financings</u>	<u>182,926</u>	61.64	71
of which			
- Medium and long term credits (acquisition of foreign assets by nationals)	74,829 (779)	25.22 (.26)	31 (1.5)
- Short term credits	108,097	36.42	40
<u>Non-priority financing</u>	<u>113,821</u>	38.36	29
<hr/>			
<u>Total the credits subjected to sectoral policy</u>	<u>296,747</u>	100	100
<u>Credits not subjected to sectoral policy</u>	<u>119,965</u>		
<u>Total credits</u>	<u>416,712</u>		

(Source: BCEAO)

From 1982 to 1986, the sectoral coefficients set forth by the National Credit Committee for the allocation of bank loans have never been reached so that the realizations have always fallen short of the objectives.

This situation is equally true with respect to the allocation of credits to the Senegalese which, as we know, has been set at 60%.

From 1975 to 1982, the credits to Senegalese businesses have evolved as follows:

Table 10

Evolution of credits to Senegalese businesses

(1975 - 1982)

(in million of CFAF)

	<u>December 1975</u>		<u>December 1976</u>		<u>December 1977</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Reference risk	57,869	100	66,053	100	84,658	100
Senegalese businesses	35,451	61.27	37,608	56.94	46,175	54.53
including SMEs	3,654	6.32	4,817	7.30	6,298	7.44
	<u>December 1978</u>		<u>December 1979</u>		<u>December 1980</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Reference risk	111,705	100	137,543	100	168,141	100
Senegalese businesses	62,857	56.28	77,553	56.39	93,232	55.45
including SMEs	7,887	7.07	9,230	6.72	16,132	9.60
	<u>December 1981</u>		<u>December 1982</u>			
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>		
Reference risk	185,527	100	214,571	100		
Senegalese business	104,815	56.50	116,742	54.40		
including SMEs	15,413	8.31	17,338	8.08		

Source: BCEAO

Although there is information about credits to the SMEs from 1983 to 1986, nothing is known of the volume of credits to Senegalese businesses.

The sectoral policy is difficult to implement and the failure to achieve its objectives is imputable to several factors:

i/ It is too global and does not make it possible to determine individual responsibilities in cases of non-conformity to the objectives. As a matter of fact, since the policy was established in 1977, the National Committee has not deemed it necessary to define the coefficients within each sector, as well as very flexible directives, thus allowing the banks to themselves determine the means to reach the overall results set. Also, certain banks, such as CITIBANK, the BCCI, the BHS and the CNCAS orient their credits only to certain definite sectors.

Furthermore, to avoid too rigid credit allocation procedures the National Credit Committee did not deem it necessary to dissociate these different branches and set objectives for each of them.

ii/ The sectoral objectives of the monetary policy do not necessarily correspond with the areas of natural profitability of bank transactions. No credit demand is satisfied by a bank unless the latter is assured of a substantial profit, and no risk of a financial disequilibrium from the transaction.

iii/ Under the present circumstances, the National Credit Committee recognizes that it is not easy to apply the sanctions provided in the bank regulation for granting to one recipient alone credits superior or equal to 70 million CFAF, and for non-adherence to the prior authorization rule or the sectoral policy.

iv/ The evolution of the results of the sectoral policy results has revealed a rigid allocation of credits to the economy, primarily demonstrated by the small increase in the amount of loans extended during the last years.

Thus, the incentive system, which depends mainly on the existence of two series of interest rates (a normal interest rate and a preferential interest rate), and which aims mainly at promoting the sectoral policy, has not fully played the role originally assigned to it.

Therefore, the SMEs did not benefit from the effects expected from the sectoral credit policy, although the latter aims at playing the role of qualifying control in the allocation of credit.

It must be recognized that the allocation of bank credits to Senegalese has been more profitable for a restricted number of recipients, because of certain political pressures, than for the SMEs.

This is one of the constraints that has limited the access of enterprises to bank credit.

3. Global credit

Since 1980, Senegal, like the other member States of WAMU, has followed a restrictive monetary and credit policy, to better control the money flow and domestic demand, which are important conditions for achieving the goals of restoration of the internal balances and the improvement of the balance of payments profile.

Credit tightening which accompanies the adjustment measures, aims at a limitation of the overall financing of the economy. This limitation was an imperative because of the lax credit policy applied in the decade of the '70s

Application of the Central Bank's restrictive policy rested on:

- measured management of Central Bank refinancings which are contained within the monthly ceilings fixed by the National Credit Committee;
- control of the evolution of bank credits by the establishment of monthly norms for the increase of normal credits allocated by the banks.

This mechanism is completed by the surveillance of the foreign position of the banks and control of the counterparts' funds of crop credits.

Furthermore, the evolution of normal credits is determined by the agreements included with performance criteria retained under the stand-by agreements concluded with the IMF.

It should be emphasized that under these accords, the behavior of normal credits takes account of constraints concerning:

- the crop credit ceiling; no overrun of these credits is authorized, and any realization at a lower level carries with it an adjustment down to the level of the total domestic credit;
- the ceilings set on the net position of the GOS and the domestic credits.

Furthermore, within the total portfolio of credits to the economy determined annually by the BCEAO Board of Directors, the BCEAO National branch allows each banking establishment an individual ceiling which is not formally communicated to it because of the principle of the "uncertainty of refinancing". The criteria for allocation vary from one establishment to another.

Crop credits, guaranteed by the proceeds from the marketing product, should be terminated within a maximum of one year.

In practice it has often happened that the expenditures of the agricultural product collection agencies financed by crop credits, regularly exceed their normal expenditures, leaving a balance of credits non-representative of a stock.

This is typical of the oil-crushing firms which, considering their multiple activities, tend to draw excessively on crop credits to finance needs other than those related to the marketing of peanuts.

The "overhangs" whose accumulation has caused the collapse of ONCAD and which are the principal cause of the current difficulties of the banking system, are at the end of the fiscal year reinterated into the normal credits, thus overrunning the credit ceilings.

However, for two years the GOS has undertaken to pay the banks allocating crop credits for the deficits noted at the end of each campaign, before December 31 each year;

However, any delay in offsetting the deficits concerning crop credits results in a squeeze in the banking system.

This situation has the effect of limiting the volume of loanable funds with the banks involved in financing the SMEs.

The shortage of funds in the banks financing the SMEs (BNDS and USB among others) has brought about a considerable reduction in their credit activities.

In any event, the restrictive credit policy has affected mainly the banks that grant more credit to the SMEs than to those more oriented toward short term and low risk commercial activities

In addition, the illiquidity of the banks with structural deficits (BNDS, USB) has accordingly reduced the level of progression of the banks recently created to finance SMEs.

As an example, the SONABANQUE is limited to 50 million CFAF per month for the advance of its uses.

This is an additional constraint on the allocation of bank credits to the SMEs.

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CHAPTER III PRIMARY BANKS AND SME FINANCING

A. ACTION OF THE PRIMARY BANKS

1. Realization

It is not easy to determine the number of credits to SMEs because it is so hard to define precisely and absolutely the Senegalese SMEs, as emphasized in the first part of this report.

For determining the number of credits to the SMEs, the BCEAO has preferred, for the sake of simplification, to retain only the risks (outside of loans on real property) declared by the banks on private individuals and companies whose loans do not exceed 30 million CFAF.

According to this type of risk, the number of loans to the SMEs have been determined as follows:

Table 11

Credits to SMEs from 1976 to 1986

Years	Amount (in billions of CFAF)	Normal credits (in billions of CFAF)	Share of SMEs in normal credits (%)
1976	4.8	111.9	4.3
1977	6.3	133.7	4.7
1978	7.9	183.7	4.3
1979	9.2	204.5	4.5
1980	16.1	247.5	6.5
1981	15.4	290.9	5.3
1982	17.3	319.2	5.4
1983	18.2	347.0	5.2
1984	19.8	360.1	5.5
1985	20.1	369.6	5.4
1986	20.1	366.7	5.5

(Source: BCEAO)

The preceding table shows that the financings to the SMEs have grown notably, from 4.8 billion CFAF in 1976 to 20.1 billion CFAF in 1986, or a four-fold increase in ten years. However, in spite of these efforts the SMEs' share in normal credits still remains low, at 5% on average over this period.

In 1985 and 1986, the breakdown of the recipients of loans to the economy according to the size of the average loan l/ as realized by the Centrale des Risques, is as follows:

Table 12 Breakdown of credit users by level of average credit outstanding

	1985		1986	
	Number	%	Number	%
Total number of credit users	3,365	100	3,763	100
Number of users whose average credits are:				
- less than 30 million CFAF	2,316	63.6	2,427	64.5
- between 30 and 100 M CFAF	871	24.0	893	23.7
- between 100 and 200 M CFAF	213	6.0	201	5.3
- between 200 and 1,500 M CFAF	235	6.4	242	6.5

In 1986, the total average loans to the economy were 406 billion CFAF, of which 367 billion CFAF were normal credits.

Of the total average loans to the economy, 308,625 million CFAF went to users whose average loans were more than 200 million CFAF.

Table 13

Average credit outstanding higher than 200 million CFAF by level in 1986

<u>Average credit</u>	<u>Public sector</u>	<u>Private sector</u>	<u>Total</u>
-higher than 1,500 M CFAF	11	13	24
-between 1,000 and 1,500 M CFAF	3	16	19
-between 200 and 1,000 M CFAF	<u>15</u>	<u>184</u>	<u>199</u>
Total	29	213	242

Of the 242 users:

- 22 were 1st category, of which 7 for the public sector
- 52 were 2nd category, of which 6 for the public sector
- 36 were 3rd category, of which 5 were in the public sector
- 22 were in liquidation, of which 7 for public sector
- 110 did not furnish information, of which 4 for the public sector

Table 14

Average credit outstanding
higher than or equal to 200 million CFAF by category in 1986
(in millions CFAF)

	<u>Public sector</u>	<u>Private sector</u>	<u>Total</u>
1st category	35,822	17,626	53,481
2nd category	8,399	61,752	70,151
3rd category	16,052	20,977	37,029
In liquidation or liquidated	80,187 ^{1/}	10,760	90,947
Information not available	<u>5,910</u>	<u>51,40</u>	<u>57,050</u>
Total	146,370	162,255	308,208

Reliable data on the quality of the banks' SME portfolio are not available to properly appraise the SMEs' share in the unsound portfolio of the banks.

We have received information only from SOFISEDIT, as the other banks did not respond to our various questionnaires.

However, the partial information drawn from a recent survey by the BCEAO concerning transactions subjected to a collective procedure with the banks, shows that the SMEs' share would represent around 25% of contentious transactions.

This substantial percentage reflects the opinion of the banks that consider SME financing as "high risk".

^{1/} including ONCAD (67,086) and O.C.D. (9,292)

Nevertheless, because of their relatively small share in the banks' portfolio, the existence of frozen SME credits has not substantially blocked the operation of the banks.

However, the position of certain banks in trouble (notably SOFISEDIT) to a great extent results from a largely compromised SME portfolio.

2. SOFISEDIT

2.1. Purpose

SOFISEDIT was created in 1974 by the Senegalese government to respond to the medium and long term financing needs in the industry and tourism sectors.

This mission is performed with conditions advantageous to small and medium enterprises whose capital is held at 51% by Senegalese who therefore can receive SOFISEDIT loans at a preferential rate within the limits of a credit ceiling not exceeding 50 million CFAF.

2.2. Financial means

Besides the capital of 1,300 million CFAF, SOFISEDIT has specific lines of credit for the development of Senegalese SMEs. Thus, SOFISEDIT currently receives lines of credit from:

- The KFW, a West German development bank whose line of credit 15 to 30 years, can be reloaned to the SMEs at around 8.5%.
- The BOAD, the West African Development Bank, whose line of credit, reloanable at 10.5%, contributes to industrial decentralization (investments outside of the Cap Verde region).

- The IBRD, a portion of whose line of credit contributes to financing management assistance to small and medium enterprises having management problems.

The actual interest rates for these lines of credit are as follows:

- IBRD 1 : 7.25%
- IBRD 2 : 8.90%
- IBRD 3 : 9.60%
- KFW 1 : 8.30%
- KFW 2 : 9.00%
- BOAD 1 : 7.00%
- BOAD 2 : 7.50%

Locally, SOFISEDIT can also use the possibilities of refinancing with the BCEAO for financing the SMEs or the repurchase of these SMEs by the Senegalese.

The interventions of SOFISEDIT are effected in three ways:

- a) by the provision of long term loans of 11 to 20 years;
- b) by participation in the capital of companies, at the request of their promoters, up to 25%, to help in the constitution of necessary own funds;
- c) by the provision of medium term loans of 2 to 10 years.

Lending terms - duration, interest rate, grace period - are adapted to the specific needs of each project.

The interest rates vary between 8.5% and 13.5% according to the project. They can actually be reduced to 10.5% per year for projects to be implanted outside the Cap Verde region, and to 8.5% per year for the investment projects of Senegalese small and medium enterprises.

Besides these forms of intervention, the bank can help in the search for technical and financial partners for the implementation of SME projects. These technical services can help the enterprises in the identification, design and technical evaluation of the projects.

2.3. Interventions of SOFISEDIT in SME financing

Since its creation, SOFISEDIT has approved medium and long term loans for a cumulative amount of 1,092 million CFAF, in favor of 36 SME projects, or 6% of the total loans approved by the bank.

The projects submitted to SOFISEDIT for financing are previously subjected to a feasibility study realized by SONEPI or a consulting firm.

The cycle of projects financed by SOFISEDIT has four principal stages:

- . evaluation
- . credit provision arrangements
- . credit release
- . follow-up

2.4. Guarantees taken by SOFISEDIT

The guarantees taken by SOFISEDIT for medium and long term loans to the SMEs are:

- i/ the pledging of equipment and goodwill as collateral;
- ii/ the personal bonding by the promoters of their own assets;
- iii/ the endorsement of SONEPI's guarantee funds which can guarantee up to 50% of the amount of credit granted.

2.5. Realizations

As of 09/30/87, of the 36 SME projects approved since the creation of SOFISEDIT, 21 have actually received loans for a total amount of 384 million CFAF, or 41% of the total cost of the financed projects.

Of these projects:

- 6 had entirely reimbursed their loans and were therefore cleared;
- 4 were considered doubtful;
- 8 were in liquidation;
- 2 were considered satisfactory;
- 1 was still in operation but immobilized.

Table 15

Position of the SOFISEDIT's SME portfolio as of 09/30/87

(in millions of CFAF)

<u>Credits</u>	<u>Amount of principal</u>	<u>%</u>
cleared	130.2	33.9
satisfactory	25.0	6.5
operational and immobilized	<u>19.0</u>	<u>5.0</u>
Total sound credits	<u>174.2</u>	<u>45.4</u>
doubtful	60.0	15.6
in liquidation	<u>150.0</u>	<u>39.0</u>
Total unsound credits	<u>210.0</u>	<u>54.6</u>
Total portfolio	<u>384.2</u>	<u>100</u>

(Source: SOFISEDIT)

As of 06/30/87, of 209.3 million CFAF of principal due, 181 million CFAF were not repaid.

As of 09/30/87, of 337.7 million CFAF with debt due in capital and interest, 328.4 million CFAF were not repaid by the projects considered doubtful and contentious, of which 171.4 million CFAF in interest due, fees and late interest charges.

In relation to the total unsound bank loans estimated in capital and interest at 2.444 million CFAF as of 09/30/87, the compromised SME portfolio represented 13.50%.

Of 181 million CFAF in principal of unsound loans, 102 million CFAF are considered unrecoverable as of 09/30/87.

It follows that the rate of default was estimated at 31% in principal. Examination of the unsound SME portfolio reveals that the most reliable guarantees are those of the SONEPI guarantee fund.

It goes without saying that the unsound loans of SOFISEDIT, SMEs and other projects, are the origin of the bank's difficulties, which resulted in successive losses and finally absorbed the initial capital.

For SOFISEDIT, the main difficulties identified in realizing the small and medium enterprise projects are, on the one hand, in the formation of own funds - participation of promoters in the financing plan for a minimum required by the banks - and, on the other hand, in the guarantees demanded by the banks.

There are also the difficulties of technological adaptation and command of the "know-how".

According to SOFISEDIT the SMEs are also confronted, in the course of their operation, by the problem of financing their revolving funds requirements (these being partly financed by the commercial banks by short term loans), the recovery of GOS debts, the problems of penetration of the local and export markets, and particularly, controlling the management of their enterprises.

Thus, to help resolve all these difficulties, SOFISEDIT has created an internal division for follow-up and supervision of projects. This division is composed of engineers and financiers who are constantly in the field.

Besides, SOFISEDIT diagnoses the projects, identifies the principal difficulties and proposes recovery plans which are submitted to the interested promoters and partners.

Under the lines of credit, SOFISEDIT management considers it necessary to assign part of the resources to the financing of management audits of technical assistance for the SMEs having management problems, and to the financing of financial restructurings requiring the strengthening of own funds.

At present, SOFISEDIT, along with D.E.G. (West Germany), F.M.O. (Holland), the Caisse Centrale (France), and other individual Senegalese, is trying to create a financial structure that will become an investment with a start-up capital estimated at 600 million CFAF, for financing medium and long term SME investments. This structure could also come to participate in the SMEs' capital, give its guarantee and issue debentures.

For its future activities, the structure envisaged wishes to obtain a line of credit of 2 billion CFAF in order to finance its five-year investment program.

3. Operations of the Société Nationale d'Assistance et de Garantie (SONAGA)

3.1. Status until late 1981

SONAGA was created in 1971 in the framework of a policy of promotion of Senegalese entrepreneurs, to assist them in accounting management and with its guarantee for facilitating their access to bank credit.

Until 1981, SONAGA provided guarantee funds that had helped guarantee loans on the order of 1,978 million CFAF in 1977. From 1982, the company considered it had completed its mission of integrating Senegalese businessmen into the banking system; therefore, it has progressively disengaged itself from its guarantee operations to allow the banks to assume alone the risks on the loans

they grant. The guaranteed loans were not more than 439 million CFAF in 1981, as shown in the following table:

Table 16

Status of credits guaranteed by SONAGA at the end of 1981

(in millions of CFAF)

	<u>as of</u> <u>09/30/79</u>	<u>as of</u> <u>09/30/80</u>	<u>as of</u> <u>09/30/81</u>
A - loans granted by the banks	2,398	1,475	657
B - loans guaranteed by SONAGA	<u>1,541</u>	<u>925</u>	<u>439</u>
- B/A	64.5%	67.7%	66.8%

3.2. Action of SONAGA since 1982

In 1982, the Government of Senegal, faced with a chronic unemployment rate among university graduates, developed a strategy for placing these graduates by adopting the following measures:

- negotiation of a one-year pre-hire contract, with private local enterprises;
- assistance in the creation of SMEs/SMIs in favor of the graduates.

The second component, to be implemented by the Société Nationale de Garantie d'Assistance et de Crédit (SONAGA) consisted in:

- favoring the creation of SMEs between the graduates themselves, between graduates and local professionals and foreign partners;
- entirely financing their projects (formation expenses, physical investments, working capital or their participation in the projects in association with individual partners);

- providing them with assistance and close guidance throughout the repayment period (around 3 to 4 years).

To realize this component it was initially planned that the GOS would contribute up to 30% of the project, with the remaining 70% to be drawn from bank resources (BCEAO plus primary banks).

To date, the GOS has granted a total subsidy of 1,888 million CFAF.

Between 1982 and 1985, the results of the three phases of the placement of university graduates are as follows:

Table 17

SONAGA's results as of 08/25/85

1/ Results by sector

<u>Sectors</u>	<u>Number of companies</u>	<u>Executive positions</u>	<u>Other induced jobs</u>	<u>Financing (millions)</u>
Transport	49	174	289	1,715
Commerce	11	22	52	256
Bakery	38	72	533	835
Fishing	15	45	510	457
Truck farming	6	24	39	317
Divers	<u>29</u>	<u>107</u>	<u>153</u>	<u>753</u>
Total	155	444	1,576	4,333

(Source: SONAGA)

2/ Results by phase

<u>Sectors</u>	<u>Number of companies</u>	<u>Executive positions</u>	<u>Other induced jobs</u>	<u>Financing (millions)</u>
Phase I	48	109	495	1,126
Phase II	52	168	543	1,769
Phase III	<u>48</u>	<u>167</u>	<u>538</u>	<u>1,438</u>
	155	444	1,567	4,333

(Source: SONAGA)

Added to the total financings are loans of 142 million CFAF for the restructuring plans of the commercial companies of the 1st phase.

The GOS effort is not negligible, even though at present the 30/70 formula is not always observed.

However, until August 25, 1985, the GOS subsidy helped finance 43.5% of the total projects, rather than 30%.

The remaining 70% are financed as follows:

- 10% from SONAGA own funds, or 7% of the financing sought;
- 55% from bank overdraft facilities, or 38% of the financing sought;
- 35% from the BCEAO supplementary resources, or 24.5% of the necessary financing.

Given the weight of the bank overdraft facilities to which SONAGA has recourse on the basis of the T.E.N. + 4.25 plus the T.P.S. tax on services, the interest rate applied to projects for university graduates is 18.9%.

However, it is necessary to lighten the share of the cost of the overdraft facilities, inasmuch as SONAGA receives a BOAD (West African Development Bank) line of credit, and re-loans it at a 13% rate.

Concerning the Central Bank supplementary resources, the average Central Bank rate was 7% for the period 1982-1987, according to the information furnished by the financial management department.

According to SONAGA management, the refinancing has reached 2.155 million CFAF for the same period, for an average loan of 3,150 million CFAF, or 36.6% of the uses.

Thus, for 100 CFAF of credit to the university graduates' projects, the average cost of resources breaks down as follows:

<u>Nature of resources</u>	<u>Amounts</u>	<u>Costs</u>	
	<u>T.T.C</u>	<u>%</u>	<u>Amount</u>
GOS subsidy	30	0	0
Own funds <u>1/</u>	7	6	4.2
Overdraft facilities	38.5	14.9	5.7
BCEAO refinancing	<u>24.5</u>	8.5	<u>2.1</u>
Total	100		12.0
Interest rate applied			<u>18.9</u>
Margin on cost of resources			<u>6.9</u>

Loans are granted for a maximum of 36 months, after a grace period of 6 to 15 months. The repayment of loans granted to the university graduates' projects is by chain of effects, and the guarantees taken by SONAGA are limited to a pledge of the financed equipment as collateral.

Thus, SONAGA's risk is more related to the economic contingencies of the projects and the precariousness of the management of the businesses financed.

This is why SONAGA participates actively in the management of the SMEs by very close guidance as soon as it appears that the projects are encountering difficulties, the first signal being the appearance of debts due.

For the 1st and 2nd phase projects, that is, 97 companies, the unpaid debts as of 08/25/85, amounted to 129.4 million CFAF for debts due, in principal and interest, from 1,295.3 million CFAF, or a 10% risk of default.

There are no data for the 1986/1987 period.

Compared to the unsound loans in the SME portfolio of SOFISEDIT, the volume of debts due by the university graduates' projects denotes better results

1/ For own funds, we have adopted the 6% minimum risk rate.

The problems encountered by SONAGA in its policy of refinancing the SMEs are of several kinds:

- 1) The university graduates' projects are not considered by the Central Bank as SMEs and the BCEAO's quota of intervention in refinancing is limited to 35% of SONAGA's uses, including consumer credits. This policy demonstrates the limits of the Central Bank's action inasmuch as, if it had to refinance all the loans at less than 30 million CFAF, its rule of a ceiling of 35% of its loans to a bank or financial establishment could not be observed. This raises the question of whether the Central Bank can raise its share of intervention to 90% for the medium and long term credits in the case of a banking establishment whose mission is to finance the SMEs.

Moreover, as the university graduates' projects are not considered as SMEs, the Central Bank cannot refinance the uses of SONAGA at the T.E.P., but at the T.E.N.

- 2) SONAGA does not always obtain refinancing by the Central Bank insofar as the BCEAO takes into account the sector of activity in which the university graduates' projects are involved. This is the constraint of the sectoral credit policy, which does not give automatic access to Central Bank resources for enterprises involved in the sectors considered as non-priority. This is the case of SONAGA, which grants loans to the university graduates' projects, oriented toward trade (control-shops operations).
- 3) SONAGA resorts, in order of priority, to the overdraft facilities of SONABANQUE (bank subsidiary of SONAGA which holds 88% of its shares) for the financing of university graduates' projects. Now, SONABANQUE being subject to the credit squeeze policy, it follows that SONAGA suffers the direct consequences of the levels of monthly increases imposed on its subsidiary for loanable funds.

- 4) The personnel of the "SME promotion unit" of SONAGA being limited, it cannot fully monitor the projects that benefit from its assistance.
- 5) Because of the limits on resources, of which the restrictive credit policy is an element, SONAGA is not always in a position to totally finance the investment programs of projects for the university graduates who complain that certain operating materials are lacking to fully attain their production goals. In this connection, it is necessary to be explicit that SONAGA does not intend to finance the whole investment program from the first year, to be prudent and for performance testing.

While the university graduates complain that the lack of certain materials impose on them additional costs (sub-contracting), SONAGA, for its part, considers that they do not always give proof of strict commercial and financial management and do not submit in time figured and reliable investment and mid-term implementation plans to prove their needs. This is one of the inconveniences of limited partnership, which means a complete absence of own funds on the part of the promoter.

This is why SONAGA believes that the university graduates' projects should not be subject to political contingencies if they are to succeed.

Therefore, they require supplementary efforts on:

- strict criteria in choosing promoters;
- improvement in the study of project proposals and increased participation of promoters;
- extension of the duration of credits considered to be too short;
- improvement and reinforcement of the quality and means of the capacity for guidance of these SMEs;
- the loosening of the lines of credit extended to SONAGA.

For the choice of promoters, an action is undertaken concerning the project: Programme de Développement de l'Esprit d'Entreprise au Sénégal, for which the World Bank agreed to provide the financing sought (141 million CFAF) over a two-yr period.

4. Caisse Nationale du Crédit Agricole du Sénégal (CNCAS)

Created in April 1964, the CNCAS had a capital of 2,300 million CFAF. The CNCAS works towards stopping rural exodus by bringing to rural producers facilities for deposits and credits.

As of 09/30/86, the CNCAS has granted around 1,500 million CFAF of credit made up of a substantial number of small loans. The CNCAS has four agencies and sixty agents.

According to the CNCAS credit manager, the opening of offices is not a priority for the effective functioning of the CNCAS.

These offices have relatively high operating costs and low profitability.

On the other hand, the CNCAS intends to establish more appropriate logistics: this is the system of "truck-offices". By means of these mobile offices, one can go to the farmers and not wait for them to come to the CNCAS office, usually situated a long way away.

At present the CNCAS expects to put in place two truck-offices, as the development of this plan is limited by lack of means.

By means of the truck-offices the CNCAS hopes to increase the collection of resources. For this, the CNCAS plans to send the mobile offices once a week to the weekly markets. On these occasions, the farmers could open deposit and term accounts, and make payments and withdrawals at wide intervals.

There is no doubt that this system has the advantage of increasing the collection of resources, hence, of savings and of securing the farmer. The managers of the CNCAS believe that the collection of resources should be carried out by personnel who know the localities well and speak the local languages.

For example, the CNCAS credit management has pointed out to us that in half a day an agricultural engineer attached to his service has collected 50 million CFAF with the help of one "R4" car.

It is clear that this system can entail substantial costs (amortization, fuel, etc.) but it is the only one that can reinforce the bank resources.

The managers of the CNCAS believe it is necessary to base loans on preliminary savings and an effective capacity for repayment.

Concerning individual loan application documentations, the CNCAS agents require from now on that a working visit be made to the site. Of course these on-site visits are expensive, and result in increased administrative costs.

To date, the individual projects financed by the CNCAS have not been very satisfactory. That is why the CNCAS is now much stricter in appraising the project proposals submitted to it for financing.

As to the village groups, the loans should be based on the financial contributions of the village sections. That system allows the CNCAS to obtain the common guarantee of these sections and the farmers' contributions for possibly up to 25% of the financing.

Concerning personal contributions (self-financing), the CNCAS requires that they be in cash deposited with it. As for the loan, it must be secured upon submission of supporting documents (purchase orders, record of reception, etc.).

The credits provided by the CNCAS take account of:

- i/ the risk of appraisal;
- ii/ the level and conditions of marketing.

To limit the risks, the CNCAS believes it should be present both up-stream and down-stream the project.

In any case, the CNCAS considers that any project subjected to its financing must meet two minimum requirements:

- own funds cannot be less than 300,000 million CFAF;
- the common guarantee must reach a minimum of 350,000 million CFAF.

The financial strategy of the CNCAS is based on the following sequence: the costs must be covered by the proceeds which themselves depend on the level of collected resources.

In other words, a deficit of 160 million CFAF must be offset by deposits of 2,000 million CFAF invested at 8% on the money market.

Now, at present the proceeds of the CNCAS cannot cover the costs of the new structure.

Given the constraints and costs of resources, the managers of the CNCAS consider that in determining the equilibrium rate, the following should be taken into account:

- the cost of collection estimated at 6%;
- the administration costs and an acceptable rate of repayment estimated at 7%, as the loans must be repayed at 98%;
- a supplementary margin of 7% to face the risks of default.

In other words, with an assumed reimbursement rate of 98% the minimum interest rate should be fixed at 13.50% and in case of higher risks of default, the rate of equilibrium should be at 24%.

To further motivate the CNCAS to grant loans to agro-industrial projects, the CNCAS managers feel they should necessarily receive:

- a guarantee fund with 10% of the amount of credit to be granted;
- a line of credit at a 0.50% interest rate.

B. CONSTRAINTS AND LIMITS TO THE ACTION OF PRIMARY BANKS ON BEHALF OF SMEs

1. Rates

All the banks surveyed were unanimous in considering that the rates fixed by the BCEAO within the 30 million CFAF limit or beyond are rigid and unmotivating. In the preceding chapter, we have demonstrated that the margin of 3% for credits subjected to the T.E.P. is not sufficient to cover even the administrative costs.

Furthermore, the 5% margin for credits subjected to the T.E.N. does not always cover the risks. Thus, the formation of an equilibrium rate for loans and credits to the SMEs must take into account the following costs:

- i/ under the present banking system, the average cost of resources is 7.50%, assuming that the demand deposits bear no interest. That is the low assumption;
- ii/ The administrative costs (overheads plus amorizations) should reasonably be fixed at 4% even if it is verified that this rate represents on average more than 5% of the loans granted in 1986.

A World Bank survey reveals that in 1978, the administrative costs of loans to SMEs were 4% for private development banks in the Philippines, but a little more than 4% for all categories of loans granted by the deposit banks of India. In Mauritius, the administrative expenses of a program of loans to

small enterprises represented about 13% of the 1977 loan portfolio. This cost has gradually decreased as the volume of the loan portfolio has increased.

Therefore, under the present Senegalese banking system the rate of 4% for administrative costs does not seem exaggerated, but would reflect more the structure of the banking system costs.

iii/ The risk of default is at present very high in Senegal, and SONEPI estimates at 20% the failures recorded for SME/SMIs. This rate probably corresponds to the average, as it is half way between the default rate observed at SOFISEDIT and the default rate recorded at SONAGA.

Given the chances of recovery evaluated at an average of 40% of the defaults, the reserve for doubtful loans would represent 12% of the amount of credits granted.

The question is whether that reserve should be entirely charged to a single year or if it should be spread over time.

As of 09/30/86, the amount of the doubtful loans of 10 banks was 26,859 million CFAF, based on the available accounts. The reserves for doubtful loans represented 4,113 million CFAF, or 16.5% of the doubtful loans, but 1.5% of the amount of credits granted.

The SGBS, partially involved in the financing of SMEs makes a reserve of 44.5% on doubtful loans, whereas SOFISEDIT retains a 30% rate and BICIS 18%. That last rate is the one applied by SONEPI for its guarantee fund. It is true that SONEPI provides its guarantee only to the SMEs.

However, it is appropriate to emphasize that projects generally have a minimum three-year cycle before the poor ones start stopping activities.

Thus, the reserve on doubtful loans can be evaluated at 4% per year, whether or not the projects have reimbursed the credits due. This rate is in fact much higher than that applied in countries such as India or the Philippines.

In conclusion, it appears that the equilibrium interest on loans to SME would reach 15.50%, to take into account:

- the average cost of borrowed resources	6.5%
- the administrative costs	4.0%
- the risk of default	4.0%

It should be acknowledged that the current rate policy does not take into account a profitability risk, which is made up of the "productivity risk", the "risk of rate difference" and the risk of a reserve for doubtful loans. The profitability affects the cash flow of the banks.

2. Risk appraisal

The financial position of an enterprise which has received a bank loan is a determining factor for ensuring the "liquidity" of the security representative of the bank loan. It is, therefore, normal that the banks have at their disposal all the accounting information needed to evaluate and monitor the activities of their clientele.

Now, the accounting documents generally required by the banker for appraising the risks, are not always transmitted or, when they exist, are not really reliable. Except for SONEPI, which has an SMI accounting assistance unit, few local accounting firms make an effort towards accounting assistance for the SMEs because of the relatively high cost of their interventions. Moreover, the SMEs do not give importance to bookkeeping and balk at producing reliable financial statements lest the tax administration might require of them the payment of the taxes normally due. But the production of financial statements is an unavoidable constraint, for it should allow the bank, as emphasized before, to appraise the risk of the enterprise.

Now, the risk of the enterprise is specific to each dossier and should be the object of great attention. The analysis of this risk consists in asking questions about the capacity of the entrepreneur to carry out the operation envisioned or to realize the anticipated benefits, as well as in answering these questions without any ambiguity.

Neglecting the risk of the enterprise and concentrating only on the credit risk has been from the beginning one of the principal causes of the failure of the BCS. This bank had a tendency to exaggerate the role of the guarantee to the detriment of financial analysis, under the pretense that the appraisal of the credit worthiness of the enterprises involved excessively administrative and theoretical considerations, when in fact the clientele of the BCS was mostly composed of SMEs and essentially of commercial SMEs.

Moreover, for lack of recent accounting documents the bankers cannot appraise the level of his client's obligations, the method of financing his investments, the level of his stocks, the debt service, the profitability of the enterprise, etc....

As a matter of fact, the Senegalese SME has an important characteristic: little adapted to modern financial mechanisms, it tends to use loans heavily, because it often maintains superabundant stocks or directs its short term

credits towards long term uses (operational or non-operational immobilizations). Hence, a density of loans reflected by insufficient movement.

Finally, the absence of accounting documents for information on the credit-worthiness of the enterprise limits the possibility of the banks to refinance with the Central Bank for loans higher than 30 million CFAF.

3. Guarantees

The guarantees offered by the SMEs are not always reliable and their value does not necessarily reflect the amount of credit requested.

The mortgage market in Senegal, which exists without being really organized, presents peculiarities and stratifications according to locality. Thus, the Managing Director of the USB determines the value of the mortgaged real estate according to its location. For him, a piece of real estate presented for a credit application of 50 million CFAF, for example, is not worth its price unless it is located in Dakar (Plateau and Sicap), but is really worth only half its price if it is located in Thiès, a quarter if located in Kaolack and only 500,000 CFAF if it is located in Tambacounda.

It should be added that the costs of creation of the mortgage, or of any other guarantee, are at the outset paid by the banks but afterwards debited to the client, and they are sometimes relatively high.

Finally, in case of failure, the banks never recover the amount of the loans granted by realizing the guarantees originally taken. This poses the problem of the reliability of the guarantees.

Nevertheless, it should be recognized against the banks, that they have shown little efficiency in the recovery of frozen or doubtful loans, because of an inefficient surveillance of the operations they finance.

4. Procedures

Bank procedures for medium, long and short term loans and conceding short term loans are generally long and costly for SMEs.

Thus, for SOFISEDIT, the period between the submission of a request for a medium or long term loan, its approval after screening and evaluation, and its actual provision, is 6 to 9 months on average. During this interval, a number of factors can arise and increase the original costs.

Frequently, there are frictions between the SME and its bank at the time of drawings: the permanent temptation of the SME is, in effect, to use the funds for the needs of the moment and not the needs of the financing plan decided upon with the bank. That risk is aggravated when the tightness of the working capital can lead the entrepreneur to finance raw materials using an equipment loan.

Another bank constraint exists, insofar as the SMEs do not always support their requests for loans by financial documents or forecasting studies.

Now, these forecasting studies are necessary. To obtain medium and long term loans indispensable for the implementation of a project and being, as such, part of the total investment, the SME must submit:

- a projected balance-sheet;
- a projected operating account;
- a plan for the financing of fixed assets and revolving funds

so as to permit the banker to appraise its financial standing and the profitability of the project.

This procedure is not generally observed by the SMEs unless they turn to SONEPI to carry out preliminary work for them.

Concerning loan procedures, it so happens that the banks implanted in Senegal do not have the same structures for credit allocation. Although the 1975 reform of intervention rules has removed the distinction between commercial and development banks, this dichotomy still remains in practice.

Thus, because of their long presence on the field, their usually extensive rural network, their membership in a group benefiting from the know-how of a parent bank, and the flexible use of funds, the ex-commercial banks are much more capable of appraising risks and are better adapted to the peculiar conditions of their clientele, including the SMEs.

The ex-development banks are much more administrative, and less efficient. The absence of a parent bank capable of determining effective and evolutionary procedures on the one hand, and of imposing a periodic control, on the other hand, obliges them to devise all the procedures themselves, although they are less well off from a material, technical and human standpoint.

This situation has in most cases entailed the establishment of operating and loan procedures typical of international organizations. These procedures are not adapted to SMEs. These banks have not managed to simplify their procedures without deterioration in the quality of their performance and portfolio.

As for the efficiency of the procedures, it appears that these concern:

a) Assessment of the capacity of the entrepreneurs

The ex-commercial banks, because of their practice of granting credit progressively to a particular client according to the evolution of the activity, are in a better position to appraise the qualities of the promoters and businesses. The development banks are in general backward and the various instruments they use to guarantee the quality of a promoter or a business (bank references, confidential information, training received, discussion, etc.....) have proved to be largely insufficient.

From experience, however, it is known that the evaluation of the promoter is relatively more important for an SME than for a large enterprise, for the success of an SME often depends on the reactions of a single person in a less predictable environment.

b) Evaluation of projects

In general, a large capacity for project evaluation does not exist. This deficiency is verified and recognized in all the institutions visited. The greatest deficiencies are found at the level of:

- cost appraisals;
- market studies;
- the general appraisal of project conditions and volumes of project production (e.g. capacity of equipment, public services needs);
- economic analysis

c) Follow-up of projects

Here again, the ex-commercial banks holding their clients' accounts are better placed, without, however, being completely unexposed to mishaps. Their approach, for the least organized, is limited to a follow-up of the activities, and an accounting analysis. Their decisive advantage lies in a quicker verification of the problems. The traditional development banks without commercial activity have the greatest difficulties for monitoring their project (construction and implementation phases). Some of them have procedures that have proved to be inefficient, others have neither the means, nor the training necessary for project monitoring.

The mixed development banks (short, medium and long term loans) are often structured as a juxtaposition of a commercial bank and a development bank.

These two activities are not always conducted in an integrated, regular, and hence efficient, manner. These banks, therefore, do not have the advantages of the commercial banks, and suffer from all the disadvantages of development banks.

The lack of capacity for supervision and follow-up of projects is one of the major problems of the banks. The priority henceforth given to the rehabilitation of the enterprises and the recovery of the portfolios will require a strong amelioration of follow-up procedures, and probably particular approaches and particular skills.

5. Uses and resources policy

The policy of uses of the banks does not favor the SMEs effectively. The ex-commercial banks and the mixed commercial banks that collect, above all, sight deposits or short term deposits, are led to give precedence to short term loans.

Examination of the structure of the uses of the banks in Senegal discloses the predominance of short term loans (61% of the total loans to the economy), compared to medium and long term loans (39% of total loans to the economy).

This distribution takes account of the burden of the ex-ONCAD debt, included in the long term loans. In reality, the loans would have represented 73% of the loans to the economy if the ONCAD debt were excluded.

Thus, the development of small and medium enterprises is only compatible with long resources. This is crucial for the depositors' security, considering the structure of the banks' resources.

It is true that an effort has been made already by the Central Bank which accepts the refinancing of credits that have only ten years to run. But we have already shown the limit of the BCEAO action under the present economic circumstances, and one should not expect further efforts from that side.

Furthermore, the ex-development banks (SOFISEDIT, BNDS) benefit from lines of credit for the medium and long term financing of SME projects, but these lines of credit do not cover the real needs of small and medium enterprises.

6. Banking specialization and type of credits needed by the SMEs

Banking specialization, which is a fact, handicaps the SMEs insofar as:

- i) the ex-commercial banks are more oriented toward a short term credit policy, and
- ii) the medium and long term financings for projects judged a priority are realized by the ex-development banks.

When an SME wishes to realize an investment program, it is immediately directed towards SOFISEDIT for industry, fishing or tourism-related projects, and towards the CNCAS for agricultural projects, the ex-commercial banks handling only the financing of the working capital.

The main reason for this is that the ex-commercial banks are not motivated to enter into a medium and long term loan policy judged less profitable, and that the loans to SMEs cause them to run risks not encountered with other enterprises.

Thus, the present tendency is for certain banks (SOFISEDIT, BNDS, CNCAS) to finance the high risk loans, and the other banks (ex-commercial banks) to finance the limited risk loans.

This situation presents some inconveniences because:

- a) the SMEs are led, because of specialization, to open several bank accounts in order to benefit from the various loans, depending on available bank resources, which does not facilitate the control and follow-up of these accounts;
- b) specialization does not assure reimbursement of medium and long term loans, which becomes a secondary concern for the SMEs. Actually, the ex-development banks are more penalized by this specialization. It is this situation that has led SOFISEDIT to open offices to grant short term loans.

Should the orientation therefore be towards the creation of a bank exclusively destined to finance the SMEs? This solution is to be ruled out because of the constraints on resources.

For the Managing Director of the USB, the solution lies in making available long-term resources at primary banks through a foreign line of credit, at a far removed maturity date and on soft terms. According to him, this formula would encourage the granting of loans to the SMEs.

But in fact, what type of loans do the SMEs need? Do they need short term credit, long term credit, or both at the same time?

For the SMEs of the service industries (commerce, services, etc.), short term loans are necessary: the Managing Director of the USB believes that these credits should represent two months' turnover at the maximum. But this ceiling is not limiting, for it depends on the volume of the turnover on the one hand, and on the client who has managed to establish reliable relations with his bank on the other hand.

As for the agricultural SMIs and SMEs involved in production, processing and sales activities, they need both:

- medium and long term loans to finance their equipment purchases and part of their working capital;
- short term loans to support their working capital, as the short term loans are specifically meant to finance the needs for working capital, and not the working capital itself.

It may seem paradoxical that the medium and long term loans be destined to finance their part of the working capital. This situation essentially derives from the structural weakness of the SMEs'/SMLs' own funds.

For different reasons, pertaining particularly to the low level of the promoters' own resources, and to the delays in realizing the projects, own funds generally appear to be insufficient and are chiefly used for meeting operational expenditures, so that at the start of the activity, the originally planned working capital turns out to be practically non-existent.

Now, the needs for initial working capital are actually integrated into the project investments, and the banks generally insist on limiting their interventions to cover only physical investments.

For reasons linked to the guarantees on fixed assets and equipment, SOFISEDIT finances only 25% of the working capital on medium term loans, which obliges the promoters to fall back on short term loans.

Thus, the absence or insufficiency of an initial working capital increases the needs for cash-flow of the enterprise during its operation.

It should be pointed out that working capital is defined as the surplus of permanent capital (own funds + medium and long term loans) over net fixed assets, that is, being, by accounting difference, the surplus of working assets (operating assets + realizable assets + available assets) over the short term debts (suppliers, various creditors, overdrafts, overdraft facilities....).

The need for working capital results from the difference between operating assets (realizable assets + operating assets) and non-bank short term liabilities (suppliers, various creditors....).

The cash flow itself results from the difference between the working capital and the need for working capital.

From our conversations with a few of the SMEs visited, SOFISEDIT and SONEFI, it appears that the SMEs' needs for working capital, like the difficulties linked to their financing, derive from several factors.

1) The clients

The lengthening of the period for the clients' repayment, as well as the substantial share of doubtful clients in realizable assets, have evident consequences on the enterprises' cash flow position. This situation is imputable:

- On one hand, to the fact that the GOS is a big client for most of the enterprises, notably for producers of goods and services. Now, the difficulties of public finances these past years have led to an excessive lengthening of the period of repayment of the debts undertaken by the GOS (more than 6 months in certain cases).
- On the other hand, to the fact that the reduced buying power of the largest part of the population, particularly in rural areas because of the different droughts, has led numerous traders not to pay their debts to the enterprises that gave them credit.

2) The suppliers

Foreign suppliers, because of the economic problems of Senegal, require payments from the enterprises either in cash or by an irrevocable letter of credit with the banks. In the latter case, the SME has problems with the bank which most often requires an equivalent reserve at the opening of a letter of credit.

As the local suppliers do not themselves benefit from the payment periods on the part of their suppliers, they try to reduce to a minimum their periods of client-payment and their periods for selling their stocks.

3) The control of SME growth

As the SME increases the volume of its sales in quality, there results an increase in its need for working capital, and consequently, a need for additional financing. If its capacity for self-financing is not sufficient, the SME necessarily has recourse to foreign financing to finance its growth. This problem is not controlled by the heads of the SMEs: they can increase their turnover without, for all that, achieving good profitability.

4) The difficulties with the banks

The traditional banking system, in general, appraises an enterprise only through the transactions on its current account. This opinion was confirmed to us by the Managing Director of the USB, for whom it is the transactions on the account which must serve as reference and not the financial statements, considered unreliable and difficult.

Now, the great majority of SMEs does not domicile all its receipts with one single bank. Moreover, the SMEs habitually come up against certain difficulties when having recourse to the usual banking facilities:

- The discount of bills is not practiced by the banks unless the paper is signed by reliable and solvent clients;
- bank overdrafts, as well as the other facilities, are generally subordinated to the provision of guarantees or securities, and to the existence of regular transactions on the account.

In reality, the principal difficulty with the banks is a problem of confidence between them and the SMEs that leads them to require

securities. From this point of view, one cannot blame the banks which, for their own survival, are obliged to insist on the recovery of their credits, to seek sound uses, and to require valid guarantees.

Now, because of the low level of the margins applied, the recourse of the SMEs to financing in the form of discount of bills or other easy terms, renders the SMEs entirely dependent on the banks, which, at the least failure, "execute" their client. This situation is at the origin of numerous bankruptcies in Senegal at the present time.

It is, then, urgent to put in place lines of credit to the banks on soft terms, to allow them not only to finance the physical assets of the SMEs, but also their working capital needs to integrate in the projects' financing plans.

7. Financial capacity of the SMEs

The low level of own funds constitutes a major problem for the small and medium enterprises. The own funds of the SMEs are essentially made up of the personal contribution of the owner, and are often insufficient for the self-financing required by the banker. Own funds rarely exceed 10 million CFAF.

This low level is made worse by two important facts which result from the behavior often observed among the heads of the Senegalese SMEs:

- i/ While he accepts with difficulty the need to increase his personal contribution in case of successive losses, or substantial investments, the head of a small ^{or} ~~and~~ medium enterprise generally deducts the operating profits thus ruling out any possibility of strengthening own funds. These deductions, justified in certain cases, can, if exaggerated, compromise the financial equilibrium of a business.
- ii/ Experience has demonstrated the reluctance of the owners of SMEs to open their businesses to foreign capital.

It is therefore normal that the banks have a tendency to consider the SMEs as bad risks, insofar as their financial standing is low and their activity sometimes appears uncertain.

Thus, no banker will agree to support a project by substituting for its promoter to gather the start-up financial resources that make the project credible.

It is the principle of "limited liability" that the Managing Director of the USB considers unsound. For, at bottom, any entrepreneur who takes a risk by starting a business should put his own funds at stake, commit his own capital.

Otherwise, he would not be motivated to reimburse his credits, since they are only "other people's money".

Therefore, the absence of own funds represents a risk that is inherent in the financial indebtedness of the SME.

It expresses itself in terms of respect of the financial commitments.

In other words, the gross margin of self-financing must allow the SME to meet repayment dates and its other commitments. Which means that the SME must make a financial profit sufficient to allow easy repayment of loans and to make the invested capital profitable. SOFISEDIT considers that the SMEs' internal rate of return must be higher than 12%.

The Central Bank considers that the total commitment of the sound enterprises should attain at the maximum 10 times the net standing (own funds - non assets) and that the ratio of this total commitment to the net standing, should be 3 at the maximum (1st category bills). Now, to attain such ratio, the enterprise should have at its disposal own funds that are compatible with its borrowing capacity .

As we already know, the new investment code requires that capital investments (contributions + loans assimilable to participations) represent 20% of the financing of SME's projects, including the working capital.

It is, therefore, necessary for the SMEs to reinforce their own funds, and their investment policy should be founded on previous savings.

CHAPTER IV: THE ROLE OF SONEPI IN THE PROMOTION OF SMALL AND MEDIUM ENTERPRISES

1. SONEPI's action in favor of SMEs

Axious to develop a more operational system, capable of stimulating the dialogue with the domestic and foreign private sector business world, the GOS established in 1969 an institution specialized in the promotion of SME: the Société Nationale d'Etudes et de Promotion Industrielle (SONEPI).

Created with a capital of 45 million CFAF, of which 25.5 million CFAF were held by the GOS, SONEPI raised its capital to 55 million CFAF in August 1971, thanks to a participation from the BCEAO.

The purpose of the company is to undertake industrial promotion studies and engineering consultancy. To accomplish this objective, SONEPI has oriented its action towards various directions, which include the realization of various studies for the GOS as well as a contract with the investors, with a view to:

- implanting of new industries through new promoters;
- promoting and advising Senegalese industries. In this framework, the company develops an integrated approach including training, management and organization, financial assistance, the improvement of relations between Senegalese enterprises, and between the latter and foreign investors.

For this purpose, SONEPI has specialized departments permitting it to furnish consulting services, to carry out studies and formulate projects likely to interest the banks, and to facilitate investment financing, through its participation and guarantee funds.

1.1. SONEPI's actions in the areas of studies and monitoring of SME projects

From 1969, the date of its creation, to 1985, SONEPI has studied around 420 SME projects in the sectors of industry, agriculture, fishing and tourism for a global investment of 12,225 million CFAF and 56,935 expected jobs.

Around 135 projects have been created, or a rate of creation of about 33.5%

These results have been obtained thanks to the establishment in the SONEPI Department of Studies of a new intervention tool, the Project Monitoring Unit.

This new instrument has, among other objectives, to identify all the obstacles that can arise in the implementation of a project, from its identification until its start-up, and to give assistance necessary to overcome these obstacles.

The staff of the Project Monitoring Unit has the routine task of determining the gaps between the accomplishments and the initial targets, of verifying the causes, and thereby evaluating the possibilities of catching up, and setting adjusted targets. This work is made possible by computerizing the Unit, allowing it to process rapidly the data registered on project submissions.

1.2. SONEPI's action in assistance TO SMEs

SONEPI's assistance to small and medium enterprises has two components:

- management assistance
- financial assistance

a) Management assistance

Since its creation in 1969, the Assistance Department of SONEPI has provided guidance to more than half a thousand small and medium enterprises in the areas of:

- production organization and management;
- financial and administration management;
- marketing;
- accounting management.

Since 1982, this assistance has had two forms:

- i/ On the basis of a contract for guidance signed by SONEPI and the small and medium enterprises that demanded it. In this precise case the areas of assistance are identified by mutual agreement with the head of the enterprise, and an evaluation of the efficiency of the guidance provided to the SME is made periodically by the entrepreneur.
- ii/ The second form of SONEPI's intervention in the provision of guidance is the limited, specific assistance it provides to the SMEs that have particular operational problems.

Among these specific actions of assistance are:

- the drafting of balance-sheets;
- the analysis financial statements
- budget control
- the study of the repurchase of shares held by SONEPI in the SME;
- the organization of the deliberating organs of the SME;
- aid in implementing the SME's contracts, works, etc.

Between 1984 and 1985, SONEPI gave occasional assistance to 92 SMEs.

b) Financial assistance to SMEs: the Promotion and Guarantee Funds

These two instruments of promotion of small and medium enterprises, intended to facilitate their access to bank credit, have been established since July 1970.

In the annex to this report we will give more detail on the working and conditions of eligibility to these funds.

However, it is appropriate to explain that, with regard to the participation funds originally created with an initial allocation of 65 million CFAF, the successive allocations and reserves built up the amount of the fund's resources to 235 million CFAF by June 30, 1986.

As for the guarantee funds created with an initial allocation of 95 million CFAF, the profits of the previous years and the losses of the last year brought the fund's resources to 130 million CFAF by 6/30/86.

As for realizations, the situation as of 09/30/86 is as follows:

i/ Participation Fund:

Of 172 dossiers received by the SONEPI Funds, 84 were approved for participation and SONEPI has participated in 41 companies for a total amount of 93.1 million CFAF out of total paid up capital of 1,179 million CFAF. Of the 41 companies, 10 have repurchased SONEPI's participations after paying dividends, and 9 were in liquidation.

Table 18

Status of SONEPI's participations in the SMEs' capital as of 09/30/86

<u>Position of the companies concerned</u>	<u>Number of companies</u>	<u>Total amount of paid up capital (000 CFAF)</u>	<u>Total amount of SONEPI participation (000 CFAF)</u>
Active companies	16	768,590	46,050
Developing projects	6	156,870	22,150
Inactive companies	6	71,300	13,400
Liquidated companies	<u>3</u>	<u>183,010</u>	<u>11,500</u>
Total	31	1,179,770	93,100

(Source: SONEPI)

Reserves on securities were made for a total of 28.45 million CFAF, or a depreciation of 30.50%.

As for the participations repurchased by 10 companies, the situation as of 06/30/86 was as follows:

- nominal value of repurchased capital	:	17,090,000 CFAF
- acquisition value of repurchased shares	:	31,136,236 CFAF
- amounts paid by the companies for repurchases as of 06/30/86	:	21,968.438 CFAF

ii/ Guarantee fund: Of the 172 dossiers examined by SONEPI's Funds Secretariat, 60 were approved but only 28 companies received bank financing for 335 million CFAF of medium term credits, with SONEPI agreeing to provide guarantees for 144.6 million CFAF.

Of these guaranteed dossiers one guarantee was realized, whereas ten enterprises have reimbursed 85 million CFAF of guaranteed credits up to 42%. Thirteen companies, active or in formation, have received medium term loans for 215 million CFAF, guaranteed by SONEPI for 90 million CFAF.

Among the 28 guaranteed companies, some have benefited from rescheduling agreements by the banks, while 4 companies being rehabilitated have received medium term credits for 28.5 million CFAF.

Overall, the guarantee reserves made by SONEPI have amounted to 26 million CFAF, compared to 144.6 million CFAF of guarantees provided and 335 million CFAF of credits granted.

Table 19

Status of credits guaranteed by SONEPI as of 06/30/86

Position of SMEs	Number of companies	Loans granted by the banks (000 CFAF)	Guarantees provided by SONEPI (000 CFAF)
Active and guaranteed SMEs	11	186,837	77,606
SMEs being formed and whose guarantees have been secured	2	28,700	12,350
Inactive SMEs	4	28,478	12,989
Defaults	1	5,250	2,625
SMEs whose loans have been repaid	<u>10</u>	<u>85,750</u>	<u>39,064</u>
Total	28	335,015	144,634

(Source: SONEPI)

Still, as of 06/30/86, SONEPI's frozen guarantee funds amounted to 154 million CFAF, or a potential for commitment of 770 million CFAF, that is to say, the possibility of guaranteeing five times the available amount: SONEPI considers that one project in five is likely to be guaranteed.

But allowing for the ongoing guarantees (111 million CFAF), pending guarantees (2.5 million CFAF), and reserves on guarantees (26 million CFAF), the net guarantees available are not more than 14.4 million CFAF, or an available margin of commitment of 71.8 million CFAF.

2. Limits and constraints on SONEPI's actions

SONEPI has uncontestedly contributed to develop, to assist and to better know the problems and needs of the SMEs. This promotion institution remains a valuable tool in the action on behalf of the SMEs, but considering the needs and problems of the SMEs, SONEPI is limited in its action because of the following constraints.

2.1. Management assistance

SONEPI is not sufficiently equipped to assist SMEs in management and accounting. At present, SONEPI has only two micro-computers:

- 1 micro-computer for its internal management (accounting and management control)
- 1 micro-computer for the management of the participation and guarantee funds.

Also, SONEPI has software for the feasibility studies and for enterprise management. But this software only processes information for statistical purposes.

SONEPI's current management assistance is limited to 50 selected SMEs which are mainly the enterprises in which SONEPI holds shares or to which it provides guarantees.

SONEPI previously had concluded an agreement with the SOSATCO consulting firm. This company was to give accounting assistance to the SMEs. But the experience did not produce satisfying results. SOSATCO expected the SMEs to provide the basic accounting information. But it appeared that this information was insufficient (dissimulations on sales), or excessive (over-billing of purchases), or non-existent.

At present, SONEPI cooperates with I.U.T. with the aim of placing accounting agents with the SMEs.

Nevertheless, SONEPI's SME guidance department staff is at present short of three executives detailed respectively to:

- the industrial park of Ziguinchor (1 economist)
- the industrial park of Kaolack (1 economist)
- the work shop at Ourosogui

The salaries of these executives are at present paid by the GOS through a subsidy.

Thus, to strengthen this department and allow it to fulfill its assistance mission, the needs were evaluated as follows:

<u>Personnel</u>	Annual costs (in millions of CFAF)
. Recruitment of 2 economists	10
. Recruitment of 2 accountants with a BAC G2 degree (high school level) to collect and process information	5
. Recruitment of 1 technical salesman for conversion programs	<u>3.5</u>
Sub-total	18.5
 <u>Equipment</u>	
. Purchase of 3 micro-computers for processing accounting information	6
. Acquisition of software	3
. Purchase of 2 light vehicles (inclusive of all taxes)	12
Sub-total	<u>21</u>
Total for year	39.5

This amount is to be compared with SONEPI's annual budget of 20 million CFAF currently.

To allow the said department to be fully operational and to cover its costs through the services billed to the assisted SMEs, SONEPI believes this budget should be tri-annual, at least for its human resource component.

Thus, personnel needs would be 60 million CFAF for three years and 21 million CFAF for equipment in the first year. In total, and allowing for miscellaneous

items and contingencies, the department would need a portfolio of 100 million CFAF over a 3 year period.

2.2. Participation fund

In accordance with the relevant statutes, SONEPI's participation in the capital of a company (SME) cannot exceed 5 million CFAF nor exceed 5% of the total of its participation fund. Moreover, SONEPI must not hold more than 50% of the capital of an SME.

Now, SONEPI considers that, currently, the average investment of an SMI is 200 million CFAF and that the capital needed for such an investment is 50 million CFAF, or a minimum of 25%.

Given the absence or insufficiency of SME/SMI own funds, SONEPI considers that its participation in the capital of the projects should be at an indicative level of 20%. This would mean that for a capital of 50 million CFAF, SONEPI's participation should reach a minimum of 10 million CFAF, or double the amount authorized at present.

So SONEPI finds itself confronted by a double constraint, in its participation program:

- a statutory constraint;
- a constraint on available resources.

At present, SONEPI has been able to identify 59 projects to promote, requiring an investment of 20.135 million CFAF, financed up to:

- 8,256 million CFAF by own funds, or 41%
- 11,879 million CFAF by foreign financing, or 59%

These are broken down as follows:

Table 20

Recapitulation of the projects being promoted by SONEPI

Branches of Activity	Number	Investments	Own funds	Financing
		(in millions of CFAF)		
Food and agro-industries	10	4,878	1,709	3,169
Fish, freezing	10	1,532	845	687
Mining, quarrying	4	1,041	340	701
Chemicals	6	707	235	472
Wood and leather	7	4,684	1,757	1,927
Metal industries	7	3,024	1,070	1,954
Mechanical industries	1	298	104	193
Tourist activities	5	4,971	2,196	2,775
TOTAL	59	20,135	8,256	11,879

(Source: SONEPI)

This indicates that SONEPI's needs would be around 1,651 million CFAF.

We were able to make a count of projects in the agro-industrial sector, which are capable of generating considerable value added and some of which are oriented towards exports.

They are the following:

<u>Projects</u>	<u>Investments</u>	<u>Own funds</u>	<u>Financing</u>
	<u>(in millions of CFAF)</u>		
Production of peanut butter	630	220	410
Kinkelibah projet	585	180	405
Cattle production	550	180	370
MASEBICO confectionery	515	180	335
Industrial salt production SELSINE	263	89	174
Cashew shelling	314	166	148
Darou Wahab agro-pastoral project	207	104	103
Cattle fattening at Bakou Pom	<u>169</u>	<u>59</u>	<u>110</u>
Total	3,233	1,178	2,055

For these projects, SONEPI's participation could amount to 236 million CFAF, which would indicate a need for 64 million CFAF compared to 172 million CFAF of resources available.

SONEPI's management estimates that an allocation of 1 billion CFAF could greatly contribute to strengthening the SMEs' own funds, in which SONEPI could participate up to 20%. If an average 10 million CFAF is taken as SONEPI's participation, this allocation could allow SONEPI to participate in the capital of 100 SMEs/SMIs.

However, a supplementary allocation of one billion CFAF would lead SONEPI to manage too heavy a portfolio, and to multiply its structure costs, which would result in additional charges.

In our opinion, a 250 million CFAF supplementary allocation seems to be more reasonable, and would spare SONEPI the need to transform itself into a financial establishment.

This participation should be linked with the obligatory repurchase by the SMEs of SONEPI's shares, after 3 or 4 years.

In addition, the payments received on these shares (dividends, directors' fees, portions of salaries), should neutralize the depreciation on certain bad projects (30% average).

Besides, it is fortunate to note that, from now on, SONEPI will put the emphasis on the personality of the promoter when selecting the projects it seeks to promote.

2.3. Guarantee fund

The realizations of the guarantee fund are still modest because of the insufficiency of the latter's allocation of 95 million CFAF, which represents a theoretic guaranteed loan of 475 million CFAF, SONEPI taking into consideration a risk multiplier equal to 5.

But the banks grind their teeth when it comes to an SME loan request, considering that the claims clause provided by the Internal Regulation of the Guarantee Fund does not create the conditions for bringing the guarantee into play in case of need.

The Internal Regulation of the Fund fixes the maximum guarantee rate per loan at 50% of the amount of credits and the lending establishment assumes responsibility for the other part of risk by taking the other guarantees it considers necessary: personal or joint and several guarantee, mortgage, collateral, and others.

In case of default, the Management Committee invites the bank to realize the other guarantees taken from the promoter, as soon as it terminates the loan contract, before turning to the Fund.

However, guarantee agreements dating from 1975 currently exist, which have not yet materialized, for lack of bank action on the first-rank guarantees. These

projects are still alive, but their reimbursements are too slow because of poor management.

It would seem that certain political pressures are exerted on the banks for not realizing the guarantees held, so that even SONEPI's guarantees cannot be realized for lack of a first action by the banks concerned. Consequently, for these compromised projects, the situation is at a deadlock.

It should be emphasized that SONEPI's guarantee is granted over the life of the medium term loan and also on the readjustments that can be made.

Today, SONEPI seeks to strengthen the fund's allocation so that it can play its true role and comfort the banker, who generally wishes the loan he gives to be covered by guarantees whose value very substantially exceeds the amount of credit given.

For the projects it promotes, SONEPI estimates the volume of required guarantees at 1,320 million CFAF (20% of 6 billion in guaranteed loans + 10% risks, or 120 million CFAF).

In an initial phase, SONEPI evaluates at 500 million CFAF its needs for a supplementary allocation to its guarantee fund.

It should be recognized that the Fund policy in Senegal has reached its limits, due not only to their multiplication, but also to their scope. This is above all true of guarantee funds. To guarantee SME projects with public resources, without the concerned promoters entirely assuming the risks, is anyhow tantamount to encouraging undue risk-taking.

It is time the SMEs themselves progressively guaranteed the risks they cause the banking system to incur.

Thus, the formula of renewed allocations to guarantee funds from public subsidies, here and there, must be progressively abandoned to make way for a more sound formula: that of mutual guarantee funds.

In our opinion, it is better to strengthen participation funds to compensate for the insufficiency of own funds and increase the volume of loanable funds, than to seek to increase the guarantee funds from public resources.

Nevertheless, SONEPI's action is constrained by the nature of its status, which is that of a financial establishment on account of its guarantee operations.

However, SONEPI should play its role more as a natural complement to the banking system by relieving the banks of the technical examination of dossiers (studies and guidance activities), and by intervening at the level of financial participations.

CHAPTER V: MUTUAL GUARANTEE FUNDS: ADVANTAGES AND CONSTRAINTS

1. Current data on the question

For a few years in Senegal, groups of entrepreneurs (SMEs or artisans) have been attempting to increase their share of credit from the banks and financial establishments, through mutual guarantee mechanisms.

The most advanced moves at present are made under the impetus of l'Union Nationale des Chambres de Métiers on one hand, and by the Chamber of Commerce and Industry of Dakar on the other.

L'Union Nationale des Chambres de Métiers which groups the regional artisanal associations has undertaken the studies necessary for the creation of a mutual guarantee company controlled by the artisans.

In this framework, the May 1987 Interministerial Council on craft industries issued a directive inviting the Ministry of Industrial and Artisanal Development to see that the trade associations speed up the procedures for the establishment of a mutual guarantee company, and to make the arrangements necessary to ensure its proper operation. The experts of the Union Nationale des Chambres de Métiers have been favorably received by the banks, and have submitted to the regional associations a dossier including draft statutes, internal regulations and bank protocol.

On the side of the Chamber of Commerce and Industry, a group of heads of small and medium enterprises proposes to found a company of Mutual Security Assistance and Guarantee to the Small and Medium Enterprises (MAGE). For the implementation of the guarantee, the BCEAO has specified that bank regulations do not authorize the variability of the capital of a financial establishment unless it is formed as a cooperative. The BCEAO has invited the promoters to form a cooperative, without prejudging its approval as a financial establishment, this procedure coming under Decree No. 76.914 of September 23, 1976.

A cooperative with a capital of 1,2 million CFAF has been formed and approved by the joint committee meeting of June 27, 1987. However, the cooperative will not be effective until after the Decision of the Minister of Rural Development is made, which is not yet done.

2. Scope of the mutual guarantee: possible forms of credit guarantees

In France, the German Federal Republic, Italy, the United Kingdom, a system of mutual guarantee exists. In France in particular, the mutual guarantee has contributed in a determining manner to the improvement of the conditions of financing the SMEs, by playing the role of an instrument of recourse and competition vis-à-vis the banking system.

In 1977, the amount of guarantees to the banks from the French mutual guarantee agencies was 18,6 billion French francs. If non-SMI sectors are excluded from this total, the SMIs have received 8,980 million French francs.

There are two kinds of mutual guarantee companies in France, functioning on distinct legal bases. The mutual guarantee companies for people's credit are linked to the French people's banks. They were created by the same law: that of 1917. In 1977, they processed 16,250 equipment loans to artisans for 678 million French francs.

Recently, in 1985, the mutual guarantee companies of the 1917 law, with a membership of 628,123, took guarantees for 54.5 billion French francs.

The guarantees of mutual guarantee agencies governed by article 8 of the 1936 law creating the Caisse Nationale des Marchés de l'Etat (the national fund for public contracts) have benefited 10,191 SMIs in 1977, in the amount of 3,346 million CFAF.

It should be noted that, in France, the government has set up various guarantee funds in the amount of 66 million French francs, while local governments have built up, through the EPR, 59.4 million French francs in guarantee funds.

These guarantee funds are intended to support various mutual guarantee agencies that bring their guarantee to the banking system.

The dynamism of this sort of financial service essentially derives from the reliability of the statutory provisions and the quality of business competition in France. The management of the mechanisms in place guarantees the reliability of the system, especially as the minimum capital necessary for founding a mutual guarantee company was 10,000 FF minimum, brought by law 84-86 of January 24, 1984, to 1 million FF. The intervention of mutual guarantee companies in the financing of enterprises consists either in directly guaranteeing the bank granting a loan, or in counter-guaranteeing an agency that itself takes the primary credit risk.

To benefit from the intervention of a mutual guarantee agency, an enterprise must be both a member and shareholder thereof (in general a small or even symbolic holding). Thus, the fees collected from the guarantee are limited to what is necessary to cover the cost of running the mutual guarantee company.

What really constitutes the credit standing of the mutual guarantee company is the guarantee fund fed by the initial contributions representing a certain percentage of the amount of guaranteed loans and normally returned to each borrower when he has repaid his loan. Thus, the mutual guarantee companies match their agreements on guaranties to be taken on the enterprise or its shareholders, although these agreements essentially cover the traditional equipment loans. It is believed that the financial position of almost all mutual guarantee companies shows a state of integrity and strength, from the fact that disputes were very few in number and of good quality, and that the interests generated by investing the contributions in the guarantee funds should help meet the expected losses.

In case of default of the debtors, the mutual guarantee company compensates the banks by making deductions first from the proceeds from the invested contributions, and if necessary, from the contributions themselves which are, then, only partly refunded, or not at all. It is only when the guarantee fund is exhausted that the company deducts from its reserves and capital the sums necessary to honor its guarantee.

3. Advantage of the mutual guarantee system

The mutual guarantee system rests on:

- a quasi mathematical compensation of risks that implies at the same time a substantial number of interventions (division of risks), unit risks of homogeneous amounts and compensation between risks of different qualities;
- absolute mutuality for the interests that are virtually not returned;
- potential mutuality at the level of the contributions themselves.

In addition to the advantage of the financial technique of the guarantee fund, the mutual guarantee also draws its strength from a specific knowledge of the beneficiaries of the interventions of the mutual guarantee companies. In France, in case of financial problems, the mutual guarantee benefits from a network of substantial potential linkage and solidarity grouping a large number of enterprise artisans. Often tied to trade organizations, to guilds, and to all regional public establishments, the mutual guarantee companies are the synthesis between general economic and financial questions and the quasi routine preoccupations of the enterprises. Even though the SMEs reluctantly open their accounts to the bankers, they do it more willingly with financial professional organizations such as the mutual guarantee companies, which bring to loan dossiers a technical added value based on their quasi personal knowledge of loan beneficiaries, and on their appraisal of the members' professional worth.

In Senegal, the technical added value brought in by a mutual guarantee company would also take on a much more pronounced psychological and human dimension.

Indeed, one must not lose sight of the fact that in Africa the individual belongs to a group with which he identifies, a group which regulates most of his behavior, and which as a general rule controls everything.

Psychologically, the Senegalese cannot bear the idea of being isolated from his environment, or of being pointed out by his peers because of shocking or offensive dealings. The fear of banishment could bring to the mutual guarantee system a preponderance that the guarantee funds of public origin cannot secure.

Thus, the mutual guarantee could be a satisfactory response to facilitate the SMEs' access to bank loans. They have, for the banks, the advantage of being specialized.

4. Present constraints of the mutual guarantee system

At the present time, the pioneers attempting to establish mutual guarantee funds in Senegal come up against the non-existence of precise legal provisions governing a financial establishment with variable capital. The only form that exists in the legal arsenal of Senegal is the cooperative, which exists more often in agriculture and housing. That is why the GOS authorities have placed the cooperatives under the Ministry of Rural Development.

It seems that this will pose the problem of their approval as financial establishments, for which a minimum capital of 250 million CFAF is required. This minimum is in the process of being raised to 1 billion CFAF, which is beyond the means of the mutual guarantee companies that would be created.

Thus, it would be necessary that the GOS, while contributing to a significant initial allocation of guarantee funds, defines a specific and appropriate legal framework for regulating the technique of mutual guarantee, thus giving

assurances to the different parties, considering the objectives and shortcomings of each.

5. Disadvantages of the mutual guarantee system

If the mutual guarantee companies have the advantage, for the banks, of being specialized, on the other hand, this specialization has disadvantages that, in Africa, are a source of failures for the mutual guarantee companies (MGCs). Indeed, the mutual guarantee is a credit system based on the financial solidarity of the members of a group that has the same type of activity. In other words, the MGCs group together members of the same trade operating in the same sector and the same branch of activity. Given that for certain sectors the number of SMEs is relatively small, a limited number of members could mean insufficient financial assistance from the mutual guarantee company.

The studies conducted in recent years have shown that this factor is the cause of some failures of MGCs.

Two other factors should be added that are also at the origin of some failures:

- the incomplete appraisal of risks;
- the absence of follow-up and control of the commitments per guarantee.

To forestall such failures, the MGCs should be established under certain conditions:

- i/ definition of a framework of activity complementary but not competitive with the banking system;
- ii/ participation of informed professionals trained in decision making structures;
- iii/ establishment of a financial mutuality organization allowing the guarantee system to be credible.

To that effect, SONAGA could convert its traditional activities and, from now on, play the role of a mutual financial organization, grouping within itself the different MGCs formed on a corporatist basis.

It should be pointed out that SONAGA benefits from the experience of an endorsement and guarantee company, and has on its staff professionals highly experienced in SME problems.

In addition, SONEPI could bring its contribution, thanks to its experience in guarantee matters.

Finally, the grouping around SONAGA would lift the constraints inherent in its financial establishment status.

6. Current realizations

As far as we know, the present guarantee system in Senegal remains embryonic, and only the Chambre de Métiers is attempting to set up a form of MGC covering the Cap Vert Region.

According to the chairman of the Chambre, the Cap Vert Region includes around 85,000 artisans, 3,000 of whom are registered with the Chambre des Métiers.

An operation for establishing a MGC was already started at the end of October 1987.

The chairman of the Chambre des Métiers has told us that a capital of 500,000 CFAF has been partly set up. To date, the cost of shares has not been fixed, but the minimum envisaged is a contribution of 1,000 CFAF per month.

Through this MGC, the Chambre des Métiers would seek to guarantee bank loans of 500,000 to 2,000,000 CFAF.

PART III: RECOMMENDATIONS

At the end of this extensive study, it appears that some measures should be taken, for:

- on the one hand, favoring SME access to bank credit, and
- .. on the other hand, removing the constraints on the side of of the banking system that limit the provision of credit to the SMEs.

Furthermore, some measures are specifically the GOS's responsibility. They are condensed in the following recommendations.

1. At the GOS level

- 1.1. The Caisse d'avances sur marchés publics (the fund for advances on government contracts) should be reactivated to pre-finance the contracts awarded to the SMEs by the GOS. To that effect, it would be desirable that an allocation of 300 million CFAF be made to that fund to allow it to make advances of 4 to 5 million CFAF per contract awarded to the SMEs by the GOS. The management of the fund could be entrusted to the GOS Treasury, or to SONEPI, or to both.
- 1.2. The GOS should pay off its debts to the SMEs, or even to the banks that have financed government contracts awarded to SMEs and guaranteed for them. This GOS action will have the advantage of relieving the cash flow of the SMEs and banks concerned. In addition, the GOS should, in the future, reduce the periods for the payment of the contracts awarded to this category of enterprise.

2. At the BCEAO level

- 2.1. The Central Bank intervention rules should be made more flexible in favor of the SMEs:

i/ by substantially raising the ceiling of access to preferential conditions within limits compatible with the restrictive credit policy. This measure could be accompanied by a lowering to 80% of the Central Bank intervention ceilings, which would harmonize the rule on the required self-financing of 20% under the new Investment Code.

ii/ by relaxing the bankability rules to cover the sectors of activity of the concerned enterprises. To that effect, the classification of signatures could be as follows:

1) Long cycle enterprise (industry, public works and agriculture)

a) 1st category

Enterprises:

- whose liquidity ratio, net working funds is greater than 10%
gross working funds
- whose ratio of total indebtedness is less than 1%
net standing
- whose stock rotation is 5 months or less
- whose loan recovery period is less than 5 months
- whose activity produces a satisfactory return.

b) 2nd category

Enterprises

- whose liquidity ratio is between 0% and 10%;
- whose ratio of total indebtedness is less than 10%
net standing
- whose stock rotation is 6 months or less;
- whose loan recovery period is 6 months or less;
- whose activity has a deficit or produces insufficient return but can be improved.

2) Short cycle enterprises (trade, service)

a) 1st category

Enterprises:

- whose liquidity ratio is greater than 5%
- whose ratio of total indebtedness is less than 10
net standing

This ratio can be equal to 10, if crop credits are deducted for the enterprises benefiting from this category of credit:

- whose stock rotation is 4 months or less;
- whose loan recovery period is 4 months or less;
- whose activity produces a satisfactory profit.

These conditions should be met simultaneously.

b) 2nd category

Enterprises

- whose liquidity ratio is between 0% and 5%;
- whose ratio of total indebtedness is less than 10
net standing

This ratio can be equal to 10 for the enterprises benefiting from crop credit:

- whose stock rotation is 5 months or less;
- whose loan recovery period is less than or equal to 5 months;
- whose activity has a deficit or produces an insufficient return, but can be improved.

In addition, the SME bills bearing a signature of the 1st and 2nd categories should be privileged for access to refinancing by the Central Bank.

- 2.2. The Central Bank, responsible under articles 48 and 49 of the bank law No. 76/53 of April 9, 1976, for fixing the bank's lending conditions, should imperatively review the rates applicable to the SMEs whose outstanding credits do not exceed 30 million CFAF.

The rate applicable to the SMEs within the 30 million CFAF loan limit is rigid and represents a disincentive. Rather than favoring the SMEs, it penalizes them by limiting the primary bank's room for maneuver. Thus, to take into account the present state of available capital and the average cost of resources, the equilibrium interest rate, i.e. the incentive interest rate would be 15.50%, not including T.P.S. This rate is negotiable by the SMEs insofar as, determined according to the default risk, it can be lowered by mutual agreement on the basis of reliable and solid guarantees offered to the concerned banks.

Unless the trend of risks is reversed in favor of the SMEs, the equilibrium interest rate should be determined according to the average cost of resources plus 8%.

This measure should be accompanied, at the level of the line authorities, with the mere elimination of the interest rate subsidy fund, which is in fact inoperational, and whose creation is still marked by Keynesian theory unadapted to the present context of Senegal's banking system.

On the other hand, the Central Bank, by way of the Commission de Contrôle de Banque, should be invited to apply severe measures to the banks that apply a commission fee that would be added to the borrower's interest, which would considerably increase the cost of credit. It should be noted that fees received by the banks should normally be within the limits of the authorized margins.

- 2.3. At the level of the sectoral policy, the BCEAO should invite the banks to more often grant the SMEs sound loans turned towards the productive sectors. The banks' coefficient of uses in favor of the SMEs should be

increased to take into account the trend observed in recent years.

- 2.4. Concerning the norms of monthly progression, the Central Bank should be invited to review the volume of loans to be extended by the banks strongly involved in the financing of SMEs.
- 2.5. The Central Bank should reconsider its position on the loans granted by SONAGA to the university graduates' projects, and its intervention ceiling should be put at a higher level to consider those projects as SME projects.

3. At the level of the primary banks

- 3.1. The banks should participate in a more active policy of mobilization of savings. In rural areas, the CNCAS seems to be in the best position to participate in an active collection of both term and sight deposits. For this purpose, the use of truck-banks should be strongly encouraged and strengthened. It will be a matter of evaluating the needs of the CNCAS to allow it to extend the experience of mobile and flexible bank offices to all regions.

For the classic SMEs, notably the SMIs, the formula suggested by other studies of plans "d'épargne creation d'entreprises" (savings for enterprise creation) with guaranteed financing would be welcome. By that mechanism, the promoter wishing to create an enterprise would be requested to build up savings progressively to the amount of own funds required, during the period of pre-operation and management of the project.

The primary banks should be invited to make the financial services they market better known, in order to motivate further future promoters to build up productive savings.

- 3.2. The financing of the SMEs, in the form of short, medium and long term loans, should be more balanced, to avoid making certain banks support the weight of long term financing.

To further motivate the ex-commercial banks to grant the SMEs long and medium term credit, we suggest establishing a long maturity, soft term credit line. This could be placed with the Citibank as a fiduciary bank, or with the USB-CI, which has some experience in SME financing and a more developed bank office network. In any event, the fiduciary bank can receive a fee to cover costs and expenses for managing this line of credit. But the line of credit must be accessible to all the banks that would be motivated to finance negotiable SME projects, the margin to the lending banks being 8%.

We suggest that this line of credit be 3 billion CFAF, of which:

- 2.5 billion CFAF to finance medium and long term credits to the SMEs;
- 0.5 billion CFAF for short term loans of between 3 months and 1 year.

The banks which will have mobilized part of this line of credit should repay to the fiduciary bank the funds thus liquidated, following the due date.

Furthermore, we suggest that this line of credit be placed outside the credit ceiling.

The permanent SONEPI-SONAGA-BNDS Secretariat, charged with ensuring better coordination of the activities of these institutions, of financing the SME/SMIs, should include all the banks, and first of all the USB-CI and the GNCAS.

This permanent secretariat should allow the coordination of banking system activities, the development of an exchange of information (confidential and other), and the examination of the SME dossiers subject to bank financing, examined initially by SONEPI.

To lighten the work of the banks, the technical examination of the dossiers should be left to SONEPI.

4. At the level of SONEPI and the various existing funds

- 4.1. The management assistance department should be strengthened by personnel and equipment. For this, a three-year supplement of 100 million CFAF is needed.
- 4.2. The department of studies and promotion should extend its activities to all SMEs, whether agricultural, industrial or tertiary sectors. For this, SONEPI'S eventual needs should be evaluated as to where its field of studies and promotion would extend.
- 4.3. SONEPI'S Participation Fund should be strengthened by 250 million CFAF in a first phase. These funds should offset the insufficiency of the SMEs' own funds.
- 4.4. From now on, SONEPI should be attached to the Ministry of Economics and Finance and not to the Ministry of Industrial Development. Because of its status, SONEPI is more involved in the operations that concern the management of the GOS's portfolio (shares) and the Treasury (guarantees).
- 4.5. The dispersion of the different entities (17 in Senegal) does not allow for good coordination nor great coherence in their management. Therefore, it is suggested that management and restructuring be entrusted to SONEPI, which seems to be the most suitable organization.

5. At the level of the SMEs/SMIs

- 5.1. The SMEs should be invited to strengthen their own funds to reach the level of self-financing demanded by the Central Bank's intervention rules and the terms of the new Investment Code.

5.2. They should also keep regular accounts and produce reliable financial statements. For this purpose, the SME/SMIs should strengthen their accounting structure, and call upon SONEPI for assistance in case of need.

5.3. To facilitate the SMEs' access to bank credit they should organize, by industry, in establishing mutual guarantee companies with variable capital. In the first place, this formula provides an incentive to the SMEs themselves, to the extent that:

- i/ they will not be led to offer the classic costly guarantees; the cost of these guarantees is as high as 15% of the credit when the SMEs are obliged to have recourse to the parallel mortgage market (real estate securities loaned for a consideration due of 15% of the credit).
- ii/ they would not have to bear the expense of costly formal procedures or the long duration of the procedures themselves.
- iii/ they would give more reliable guarantees for bank credits.

To this end, we suggest that SONAGA, or another similar financial establishment, be induced to supervise and take charge of the operation expenses of the GMC grouped within it. SONAM is an example.

In any case, for the development of this formula, it would be advisable:

- a) that the GOS be induced to define a specific and appropriate legal framework to regulate the mutual guarantee technique;
- b) that the companies be placed under the tutelle of the Treasurer (Direction de la Monnaie et du Cr dit) for measures of public order (security of members).
- c) that the studies of the question be followed up, for a better approach to the present guarantee system. For this, the Tunisian and Moroccan experiences ought to be studied and made use of.

6. At the donor level

To establish a line of credit profitable to the banking system (2.5 billion CFAF), as well as for the different allocations suggested (650 million CFAF)^{1/}, aid donor participation in the promotion effort is necessary.

At present, the efforts and strategies of the various donors interested in promoting the Senegalese SME/SMIs are dispersed.

Thus, an overall strategy and cohesion is called for on the part of the bilateral and multilateral development organizations.

We therefore suggest that a donors' meeting or round table be organized to coordinate the activities in favor of SMEs and to evaluate their part in the mobilization of necessary resources.

For this purpose, the following could participate:

- On the part of the bilateral organizations:

- . USAID
- . Caisse Centrale de Coopération Economique (CCCE)
- . KfW (F.R. of Germany)
- . FMO (Holland)
- . CIDA (Canada)
- . FKDEA (Kuwait)
- . FSD (Saudi Arabia)

- On the part of multilateral institutions:

- . African Development Bank (ADB)
- . IFC (World Bank)
- . ILO
- . UNDP
- . Islamic Development Bank (IDB)
- . Arab Bank for the Economic Development of Africa (BADEA)

^{1/} 300 million CFAF for the Caisse d'Avances sur Marchés Publics, 250 million CFAF for the SONEPI guarantee fund, and 100 million CFAF for SONEPI'S credit control department.

- On the part of Senegal:

- . Ministry of Economy and Finance (maître d'oeuvre)
- . Ministry of Planning and Cooperation
- . Ministry of Industrial Development
- . Ministry of Rural Development
- . National Agency of the BCEAO
- . Primary banks
- . SONEPI
- . SONAGA

For the organization of that conference a document on strategy and a plan of sector activities could define the needs and the means to implement them. It would also identify the projects to be promoted in the agricultural, agro-industrial, and tertiary sectors.

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CONSTRAINTS ON THE SENEGALESE BANKING SYSTEM THAT LIMIT
CREDIT TO SMALL AND MEDIUM ENTERPRISES

ANNEX A

ASSISTANCE POLICY AND AID TO SME/SMIs
FROM FUNDS OF PUBLIC OFIGIN

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ASSISTANCE POLICY AND AID TO
SME/SMIs FROM PUBLIC FUNDS 1/

INTRODUCTION

To strengthen the SME/SMIs' requests for credit, the GOS has created a certain number of guarantee, subsidy, repurchase, support, or participation funds.

These funds, 17 in number, are placed and managed by six institutions:

- SONEPI
- SONAGA
- SOFISEDIT
- BNDS
- SODIDA, and
- the Chambre des Métiers.

The resources of these funds are of government origin. Some of them originate in the contributions of countries friendly to Senegal through cooperation agreements.

Dispositions for the 17 funds have, for the most part, been established. However, some of the funds are not allocated sufficient resources to allow them to operate fully, or even, in some cases, to start up their activities.

1/ This note is based essentially on documents and information made available by SONEPI. We wish to thank that institution for its unfailing collaboration.

According to the objectives and policy aimed at, these funds can be grouped in five categories:

1. Participation funds: there are 4 such funds, established within SONEPI, SOFISEDIT and BNDS.
2. Repurchase funds: SONEPI is responsible for one such fund.
3. Support funds: there are 5, established within SOFISEDIT, SONAGA and SODIDA. These funds are to support the operations:
 - of the cretion of model stores ("magasins-témoins"),
 - of sectoral reconversion,
 - of the reinsertion of personnel laid off by failing para-public companies,
 - prefinancing of raw materials and risk capital.
4. Interest subsidy funds: there are 2, established within SOFISEDIT and SONAGA, and finally,
5. Guarantee funds: 2 are being created and 5 are established within SONEPI, SONAGA and the Chambre de Métiers.

By concerned institution, the following enumeration can be established:.

1) SONEPI

- SME participation fund (1970)
- SME medium term credit guarantee fund (1970)
- SME short term credit guarantee fund (1985)
- Fund for advances for repurchase of foreign enterprises (1977)
- Small-scale enterprise guarantee fund (197)

2) SODIDA

- Raw materials prefinancing fund

3) SOFISEDIT

- SME credit subsidy fund (1981)
- Participation and project financing funds (1982)
- National fund for recovery and restructuring of enterprises (1982)
- Industrial fishing credit subsidy fund (1981)
- Special reinsertion fund (1985)

4) SONAGA

- Fund for participation in commercial concerns (1977)
- Exportation credit subsidy fund (1981)
- Support funds for model stores ("magasins-témoins"): creation and extension of commercial SMEs (1982)

5) BNDS

- Fund for participation in Senegalese companies (1983)

6) CHAMBRE DES METIERS

- Small-scale production guarantee fund (1987)

This annex reviews the modalities of the operation of certain operational funds, the policies and objectives aimed at, and their accomplishments, on the basis of available information.

A. PARTICIPATION FUNDS

Four funds have been established at the initiative of SONEPI, SOFISEDIT, SONAGA and the BNDS. Two of the four funds are not operational.

1. SONAGA participation fund, called for at the time of the January 1977 Conseil Interministériel on SONAGA, has not been formally established. As a result, resources are not allocated to this fund. The fund should allow participation in commercial businesses of a certain size.

2. SOFISEDIT participation fund, called the fund for participation and recovery, aims at mitigating the insufficiency of the promoters' own funds and providing the resources necessary to start up projects in difficulty. It was established in 1982, during the bank restructuring, and it is anticipated that it will be open to all projects, according to their economic and financial merits.

The equity investment for SOFISEDIT is decided by the Board of Directors of that institution, within the limits of 25% of the company's capital and 15% of the fund's resources.

SOFISEDIT, which has a seat in the Board of Directors of the company, has considered measures for disposing of participation according to a formula and a value which will safeguard the fund's interests.

The resources of the fund must, essentially, come from allocation of government funds, and public or private international assistance. Resources have not yet been allocated to the fund. It is therefore not operational.

3. BNDS participation fund. To support the activities of the BNDS, the Islamic Development Bank has made available to the BNDS a line of credit to finance its participation in the creation or extension of companies held at not less than 51% by Senegalese, and benefiting from a long or medium term loan participation by the BNDS.

The equity investment line of the Islamic Development Bank granted to the BNDS for financing local industries was established on 12/28/1983 for 3,5. million Islamic dinars, the equivalent of 4 million U.S. dollars at the time.

The minimum amount of participation allowed by this line of credit is 35 million CFAF and the maximum is fixed at 700 million CFAF per project. In return for this participation, which cannot exceed 1/3 of the capital of a company, the IDB has a seat on the Board of Directors.

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4. SONEPI participation fund

In 1970, SONEPI's participation fund was created by SONEPI's Board of Directors, at the same time as a guarantee fund, on the recommendation of the GOS.

This fund aimed at strengthening the promoters' own funds by a participation to the capital of companies being created or developed.

In 1975, the fund was allocated 75 million CFAF of resources coming from a loan from the French Caisse Centrale de Cooperation Economique, from subsidies of the French Fonds d'Aide et de Cooperation and from the GOS Budget, and finally, from a contribution of the BCEAO to SONEPI's capital.

Added to this initial allocation were:

- a line of credit from the Federal Republic of Germany for refinancing participations, and
- a GOS subsidy as the counterpart of a Caisse Central contribution to the SME guarantee fund and to the employment of university graduates.

The fund also has available supplementary resources coming from company dividends paid and interest from investments.

The successive allocations and the cumulated reserves increased the fund's resources to 235 million CFAF as of 6/30/86. On the same date, the value, before provision for shares rose to 64,2 million CFAF, while assets were evaluated at 175,9 million CFAF.

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Position of SONEPI participation fund as of 06/30/1986
(in CFAF)

Resources

. Initial participation funds	65,000,000
. BCEAO allocation to SONEPI capital	10,000,000
. GOS contribution	18,000,000
. KFW refinancing	34,000,000
. Special GOS allocation for university graduates	<u>92,000,000</u>
Sub-total	219,000,000
Carry-over	13,506,589
Positive balance for fiscal year 1985/86	2,436,422

Total resources	234,943,011

Uses

. Shares	64,200,000
- Provisions for shares	<u>5,200,000</u>
Sub-total: net shares	69,400,000
. Term deposits at BICIS	172,000,000
. Various debit accounts	581,748
. Available assets	<u>3,361,263</u>
Total uses	245,343,011

(Source: SONEPI)

Globally, the financial condition of SONEPI seems satisfactory. In relation to the financial management plan, the policy followed by SONEPI indicates a great deal of prudence.

Thus, for the 1985-86 fiscal year ending 06/30/86, the charges and products of the funds present the following results:

(1) Cash flow plan of charges and proceeds

- Proceeds

. Creditors' interests on term deposits	<u>16,396,861</u>
Sub-total	<u>16,396,861</u>

- Charges

. Income and other taxes	3,503,566
. Payments of fees	3,325,770
. Promoter participation reimbursement	<u>2,000,000</u>
Sub-total	<u>8,829,336</u>

Results of cash flow (profit) 7,567,525

(2) Charges and proceeds outside cash flow

- Proceeds

. Recovery on reserves	<u>33,750,000</u>
Sub-total	<u>33,750,000</u>

- Charges

. Allocations on reserves/margins	13,981,103
. Losses on participations	<u>24,900,000</u>
Sub-total	<u>38,881,103</u>

Result outside of cash flow (loss) 5,131,103

Global result (net profit) 2,436,422

(Source: SONEPI)

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Regarding choices on participation, the SONEPI portfolio also seems satisfactory at the overall level.

Of the 172 dossiers of participation and guarantee funds received by the Secretariat, 84 have been approved, around half of which have created companies for a participation of 93,1 million CFAF corresponding to a total volume of mobilized capital of 1,179 billion CFAF.

Of the 41 companies in which SONEPI has taken shares, 9 have been liquidated; 10, after paying dividends, redeemed the SONEPI participation, and 21 continued with SONEPI as shareholder.

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Status of SONEPI participations in the SMEs as 06/30/86

Companies	Capital	SONEPI Participation	Reserves made by SONEPI	Status of Reserves as of 06/30/86
1. Active SMEs				
SODACO	3,500,000	2,000,000	2,000,000	Taken over
S.G.C.M.	3,250,000	1,550,000	-	-
SODIZI	15,910,000	3,750,000	-	-
E.S.C.O.M.	6,270,000	1,500,000	1,500,000	Maintained
S.S.A.A.	10,100,000	500,000	500,000	Maintained
S.I.C.M	17,000,000	3,000,000	-	-
SODENAS	45,000,000	3,000,000	-	-
SODIKA	41,150,000	5,000,000	-	-
S.P.E.	50,000,000	3,750,000	-	-
S.M.B.I.S	17,100,000	2,000,000	-	-
C.I.T.M.	30,000,000	2,500,000	2,500,000	Taken over
SODIDA	46,115,000	5,000,000	-	-
SIGELEC	300,000,000	500,000	-	-
S.T.M.A.	20,750,000	2,000,000	1,000,000	-
SODISA	27,445,000	5,000,000	-	-
SIFES	100,000,000	5,000,000	-	-
TOTAL 1.		46,050,000	7,500,000	
2. Ongoing Projects				
Coton Pharmeuc.	18,950,000	2,000,000	400,000	Taken over
Cartoucherie Senegalaise	14,000,000	2,950,000	-	Taken over
SITRAMIL	6,900,000	1,000,000	1,000,000	Maintained
S.I.C.B.	4,000,000	2,200,000	2,200,000	Maintained
NIPPON SEN	73,020,000	2,000,000	-	-
TOTAL 2.		10,150,000	6,550,000	
3. Titles on Line of credit/ Univer. Graduates				
NIPPON SEN	73,020,000	8,000,000	-	-
TOTAL 3.		8,000,000	-	-

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Companies	Capital	SONEPI Participation	Reserves made by SONEPI	Status of Reserves as of 06/30/86
4. <u>Liquidated SHEs</u>				
FASAP	2,900,000	1,500,000	1,500,000	Final Loss
SOPROTIM	2,900,000	900,000	900,000	"
SOCIP	23,000,000	2,000,000	2,000,000	"
Boulangerie GAYE		2,500,000	2,500,000	"
PLASTAF	30,000,000	5,000,000	5,000,000	"
SOCOINSAF	2,500,000	1,500,000	1,500,000	"
SOFAM		5,000,000	5,000,000	"
PINSER		3,500,000	3,500,000	"
SENETALLURGIE		3,000,000	3,000,000	"
TOTAL 4.		24,900,000	24,900,000	

(Source: SONEPI)

Share repurchase situation

Companies	Acquired value	Nominal value of K. purchased	Dividends to be paid	Repayments effected	Status as of 06/30/85
1. S.S.A.A.1/	1,721,705	1,500,000	221,705	1,721,705	-
2. S.S.M	3,861,090	2,500,000	1,361,890	3,861,000	-
3. NEGOCIA	3,002,240	2,000,000	1,002,240	3,002,240	-
4. S.C.A.BARGNY	2,815,500	1,500,000	1,315,500	2,815,500	-
5. SCMT THIES	5,179,403	2,500,000	2,679,403	5,179,483	-
6. SENALUVER	495,000	90,000	405,000	495,000	-
7. ROTABILLETS	1,745,250	1,000,000	745,250	1,163,500	581,7448
8. S.I.S.M.	4,296,048	2,000,000	2,296,048	1,000,000	3,296,048
9. F.O.C.	5,880,000	1,500,000	3,390,000	2,500,000	3,390,000
10. POLYSEN	2,130,000	1,500,000	630,000	2,130,000	-
TOTAUX	31,136,236	17,090,000	14,046,236	21,968,438	7,257,796

(Source: SONEPI)

1/ Purchase of 75% of SONEPI's shares.

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Altogether, total contributions to reserves made by SONEPI from 1970 to 1986 rose to 38,950,000 CFAF for a 60,140,000 CFAF portfolio. Of these reserves:

- 5,200,000 CFAF have been maintained;
- 24,900,000 CFAF resulted in definitive losses;
- 8,850,000 CFAF have been recovered after straightening out SMEs in difficulty.

Participation in SMEs is subscribed by SONEPI, which thus holds an administrator's seat, and therefore a considerable right of inspection, even of limited companies.

The Participation and Guarantee Fund Section of SONEPI prepares, for the attention of the Comité de Gestion des Fonds, an annual report on the position of the fund and that of the projects benefiting from its credits. The internal regulation of the Fund, in requiring SONEPI to call a meeting of the Committee at least once a year, encourages maintenance of close contact and follow-up with the SMEs benefiting from SONEPI's participation and endorsement. This connection is manifested by permanent technical and economic assistance given to the beneficiaries, after a report of the viability of the projects.

Conditions of access to the Fund stipulate that the promoter, after giving proof of professional success in former activities, agrees to keep regular accounts and to sign a technical supervision contract with SONEPI, after SONEPI has agreed to contribute to the company's principal. The prospect of the repurchase of SONEPI's participation, after the repayment of a possible medium term credit agreed to, also has constituted an incentive to the fund to participate in the capital of SMEs.

The participation fund intervenes for a maximum amount not to exceed 5% of the total fund for a business with a 5 million CFAF limit. It has the right to control only up to 50% of the company's capital.

It is the Comité de Gestion du Fonds that decides on participation in these projects.

Thus, as indicated above, the shares subscribed to by SONEPI are relay-shares. They must, at term, be redeemed by the promoters when the project's financial position is deemed satisfactory. In compensation for its participation to the capital, when the position of the project permits, SONEPI collects:

- dividends
- manager's fees
- part of the salaries

In addition, SONEPI requires that shares of the promoter or promoters be endorsed to SONEPI.

Because SONEPI has a director's seat, the Participation Fund unit contributes to the concerned companies' Board of Directors and General Meetings. With this in view, SONEPI contributes by formulating the necessary recommendations and orientation.

In addition, SONEPI's technical assistance unit regularly evaluates the concerned SMEs, sending a mission to the location to make a diagnosis in case of difficulties. It often happens that SONEPI guides the SMEs in choosing commercial strategies, in their inventory policy, etc.

SONEPI's reserves are effected on the basis of probable losses. When the SME puts into effect a successful recovery plan, SONEPI renews its reserves.

At term, SONEPI's objective would be to make genuine participation loans, which would give it the status of a financial establishment as proposed by the BCEAO.

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B. FUND FOR ADVANCES FOR THE REPURCHASE OF FOREIGN ENTERPRISES

1. Origin and administration of the fund

The fund for advances for the repurchase of foreign enterprises was created by law 77-91 on the SMEs, and committed to SONEPI's management, to facilitate the repurchase by Senegalese of foreign enterprises

Law 77-91 of August 10, 1977, determines the SMEs' tax advantages held by foreigners and ceded to the Senegalese. SONEPI's intervention conditions should be determined by decree.

2. Purpose and resources of the fund

The fund is meant to facilitate the acquisition, by Senegalese legal entities, of enterprises carrying on production or service activities listed in annex to the law which are no longer operated by foreign owners.

The fund was to be fed by international aid, local or foreign bank medium and long term credits, as well as by GOS general budget subsidies. At present, no resources are allocated to the fund.

3. Incentive measures provided for repurchase of foreign enterprises

Two series of measures have been foreseen to permit the opening of new Senegalese enterprises, apart from already existing activities, by ensuring promotion of participation of Senegalese in the ownership of production means held by foreigners.

On the level of taxes, when Senegalese legal entities decide to repurchase a SME controlled by foreigners carrying out their activities in clearly defined production and services sectors, they benefit from a favorable tax regime, fixed in Title II of the 77-91 law of August 10, 1977.

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The advantages lie with the exoneration during 5 years from registration fees and stamps on the acts of formation or augmentation of capital, the rights of transfer of commercial funds, the minimum contractual tax on the companies, and the deduction from taxable net profits under the cedular tax on industrial and commercial profits of the amortization annuities of loans contracted for the acquisition of the foreign enterprise.

On the financial level, a mechanism was established in 1976 to define clearly the Central Bank's system of interventions for the acquisition of assets, excluding non-producing real estate, ceded by the nationals of the West African Monetary Union (WAMU).

In case of repurchase by Senegalese, the financing was foreseen according to the following schema:

- 20% to 30% of the repurchase value to be covered by a supplier credit;
- 10% of the repurchase value to be covered by the purchaser's personal contribution;
- Central Bank refinancing of complementary bank credits in a special portfolio.

To be eligible for Central Bank refinancing, the operations must have prior approval from the national authorities in charge of the Plan, and the assets must be evaluated by a national committee.

In other respects, the self-financing required of the purchaser - 10% of the value of the ceded assets - is the object of the fund for advances for the repurchase of foreign enterprises.

4. Operation of the fund

An application decree of the law provides for the creation of a management committee, which would include advisory members (the BNDS, SOFISEDIT, SONAGA/SONABANQUE group, and the Financial Control unit of the Presidency), in addition to the decision-making members (SONEPI, the Ministry of Economy, the

Ministry of Plan and Cooperation, the National Union of Chambers of Commerce, the BCEAC and the Professional Association of Banks).

The maximum value of the enterprises for repurchase is fixed at 100 million CFAF, and the financing plan for the repurchase corresponds approximately to that defined by the Central Bank. However, the legal entity's contribution is 20% of the repurchase value, of which 10% will be financed by the repurchase fund in the form of a repurchase share by the legal entity, and the seller must grant a supplier credit of 15% and subscribe the equivalent of 5% of the repurchase value of the enterprise's capital.

It should be noted that the repurchased enterprise should be managed by a Senegalese legal entity of proven management aptitudes.

C. RAW MATERIALS PREFINANCING FUND OF THE SOCIETE DE GESTION DU DOMAINE INDUSTRIEL DE DAKAR (SODIDA)

1. Purpose and resources of the Fund

The Fund, allocated 25 million CFAF, operates through a type of comptoir for purchasing raw materials. It is reserved exclusively for enterprises installed in the industrial zone. The endowment of the fund comes from the appropriation of part of the line of credit placed by the KFW with SOFISEDIT for financing the equipment of SODIDA enterprises.

2. Operation of the Fund

The Fund operates as the guarantee fund for short term credits placed with SONEPI, insofar as there is a close connection between the loan and its follow-up, which manifests itself in the technical assistance provided to the enterprise benefiting from the loan.

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For access to the Fund, the SODIDA enterprises present a demand, to which is attached a dossier made up of the proforma invoices approved by the customers, the projected operating account of the business, and the detail of the necessary materials and equipment. After inquiry into the client's solvency, and the technical capacity of the enterprise, SODIDA places the amount for payment of the operation in the account of the purchasing comptoir, buys the materials and equipment, and supervises, or at times participates technically, in carrying out the order. The recipient enterprise pays 12% per year interest to cover the management expenses of SOFISEDIT and SODIDA.

3. Results of the Fund

As of March 31, 1987, 17 dossiers were financed, for a total amount of 27,39 million CFAF, reimbursed at 36%. The credits granted permitted the beneficiaries to realize a turnover of 69.7 million CFAF. The amounts of outstanding credits correspond to the orders being filled or being paid.

D. Support Funds

1. Support Fund for model stores ("magasin-témoins")

Managed by SONAGA, this Fund began with an experimental phase bearing on the creation of 15 model stores, with the following objectives:

- modernization of retail trade, and an increase in the density of sales points, especially in the interior of the country;
- creation of non-salaried jobs to reduce unemployment;
- reduction of the transfer of incomes from the commercial sector by foreign operators.

The pilot phase having proven positive, the operation received supplementary credits in 1980 and in 1983, increasing the number of stores to 83 as of September 30, 1984, and probably to more than 100 by now.

The operation cost around 375 million CFAF from 1979 to 1985, released by the GOS from government budget allocations and foreign subsidies. The operation's management has been entrusted to SONEGA, which coordinates the work of a committee made up of representatives of the Presidency of the Republic, the Ministry of Economy and Finance, the Ministry of Commerce and the Contrôle Financier.

2. Special reinsertion Fund

2.1 Purpose and administration of the Fund

To confront the reduction in the personnel of the rural development agencies, which affected around 2,000 individuals up to the end of 1987 and will again affect close to 600 more persons from now to 1990, the GOS has established a Special Reinsertion Fund. The purpose of the fund is to finance productive projects initiated by individuals affected by the personnel reductions in the concerned public and para-public sectors.

By Decree No. 86-1015 of August 19, 1985, the Special Reinsertion Fund was placed within SOFISEDIT, which administers it.

2.2 Fund resources

The Special Reinsertion Fund has received around 400 million CFAF, from a GOS subsidy and an IDA loan. It should be complemented by other GOS resources, by the aid donors, as well as by repayments of loans and interest payments.

2.3 Operation of the fund

The Special Reinsertion Fund is administered by an Interministerial Management Committee presided over by the Ministry of Plan and Cooperation, encompassing the Secrétariat Général de la Présidence de la République as well as the representatives of the concerned ministerial departments. 1/

1/ Since this report was drafted, the Special Reinsertion Fund has been assigned to a newly created Délégation à l'Insertion, la Réinsertion et l'Emploi under the Présidence de la République.

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The instruments of the fund are the Management Committee and the Secrétariat of the Fund. The Secretariat manages the fund's line of credit and gives technical advice on projects soliciting the fund's intervention.

An agreement links the GOS and the Secrétariat of the fund, notably concerning loan conditions, modalities for payment of the secretariat, and of reimbursement to the GOS of funds loaned.

The fund can finance up to 100% of the total project cost if this does not exceed 25 million CFAF, the limit of intervention of the fund. The fund's beneficiaries must also pay, as a guarantee to the Secretariat, a sum equivalent to half the amount of their separation indemnities. The guarantee deposit is wholly refunded after repayment of the credits granted. The working capital and materiel are mortgaged to the fund. The Management Committee has recently approved five reinsertion projects for a total of 98 million CFAF. The requests for financing were previously studied by SOFISEDIT, which backs up the secrétariat of the fund.

Four of those projects will allow the reinsertion of eight former employees of rural development agencies and the creation of 82 induced jobs (2/3 temporary) in the sub-sectors of fishing and animal husbandry.

The fifth loan of 25 million CFAF made it possible to start operation of the Groupement de Transport de Produits Agricoles et de Marchandises (GTPAM) project, initiated by an association of former employees of the ex-SONAR. This project reinserts 75 individuals, for a total investment of 51 million CFAF.

A project of assistance to the reinsertion of personnel affected by restructuring, financed by PNUD, is at present established in the Human Resource Section charged with coordination and follow-up of the execution of projects and actions undertaken in connection with insertion and reinsertion. This project will be carried out in conjunction with the International Labor Office.

The objectives of the project are the following:

- Creation of SMEs;
- Establishment of a system of assistance to the SMEs;
- Technical assistance and continuing training and recycling of personnel;
- Conception of a more general framework for reinsertion based on the creation of SMEs, and on long range activities intended to develop the spirit of enterprise and self-employment.

In this context, some projects and ideas for projects are at present the object of feasibility studies to be submitted for financing to the Special Reinsertion Fund.

2. FUNDS DIRECTLY FAVORING OBTAINING OF BANK LOANS: GUARANTEE FUNDS

1. SME MEDIUM TERM CREDIT GUARANTEE FUND

1.1. Origin of the Fund

In July 1979, on the decision of SONEPI'S Board of Directors, this fund was created by the GOS to contribute to a guarantee to Senegalese promoters who request long and medium term credits.

From the beginning, the guarantee fund was opened to all the banks, for the local banking system should participate in its entirety in financing Senegalese enterprises, and the guarantee fund instrument should reassure the banker in his dialogue with the Senegalese promoter.

1.2. Purpose and eligibility conditions of the Fund

The guarantee fund intervenes exclusively to aid in the accomplishment of industrial investment programs.

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To support SME loan applications, the fund provides an endorsement, which cannot be more than 10% of the potential of the fund for a given operation or exceed 3 years' duration.

All branches of industrial enterprises can request the fund's endorsement, which can be granted to reassure all the banks established in Senegal.

1.3. Management and administration of the fund

The guarantee fund is managed by SONEPI, which deals with all the requests for endorsement submitted to the management committee of the fund.

The fund's management is attached to SONEPI's Participation and Guarantee Fund, which has an accounting department for each fund, separate from that of SONEPI.

The fund's management committee is composed of permanent members having a decision-making or consultative voice, and non-permanent members called upon in case of need.

Members with a decision-making voice:

- Managing Director of SONEPI - President of the committee;
- Representative of the Ministry of Industry;
- Representative of the Ministry of Economy and Finance;
- Representative of the Managing Director of the BNDS;
- Representatives of the banks sitting on the SONEPI Board of Directors;
- Representative of the Managing Director of the BCEAO.

Members with a consultative voice:

- Representative of the Director of the French Caisse Centrale de Coopération Economique;
- Representative of the Chief of the French Aid and Cooperation Mission;
- Representative of the Managing Director of SOFISEDIT;
- Representative of the Groupement des Entrepreneurs Sénégalais (GES).

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The Committee is authorized to deliberate with half the permanent members, present or represented, and the decisions are taken by the majority.

1.4. Fund resources

In the beginning, the guarantee fund was allocated 95 million CFAP, thanks to resources from the GOS, the FAC, and the West German KFW, from the proceeds of investments, and from interest and fees received from operations carried out.

POSITION OF SONEPI GUARANTEE FUND AS OF 06-30-86
(1985/1986 Fiscal Year)

Resources

. Initial endowment of funds	95,000,000
. Carry-over (profit results from previous fiscal year)	64,413,210
. Outcome of fiscal year (loss)	- 29,522,639

Total Resources	129,901,571
-----------------	-------------

Use

. Term deposit in bank	154,000,000
- Reserves on guarantees	- <u>25,947,750</u>
. Net available in term deposit	128,052,250
. Realizable assets in current account	1,849,321

Total Uses	129,901,571
------------	-------------

(Source: SONEPI)

For 1985/86, the loss resulting from the following charges and operating proceeds was as follows:

Proceeds

Creditor interest from term deposit	14,937,440
Endorsement fees	<u>913,455</u>
Total proceeds	15,850,895
	=====

Charges

Income taxes and other taxes	3,192,234
Services	11,000,000
Allocations to reserves	<u>31,170,000</u>
Total charges	45,362,534

Net loss (charges - proceeds)	29,511,639
	=====

(Source: SONEPI)

1.5 Operation of the fund and the guarantee

Granting an endorsement starts with the promoter or the lending organization when the latter deems it necessary to have recourse to the guarantee fund to reduce his risk. In many cases, the fund gives its endorsement to an investment program to influence the banker's decision favorably before the banker decides on the loan demand. The fund supports a part of the risk, and the rest is covered by the classic guarantees taken on the project and the promoter.

The endorsement is made effective by a number of actions, which are:

- the endorsement contract between SONEPI and the lending organization;
- the contract of acceptance of the endorsement between the promoter and SONEPI, by the terms of which SONEPI is charged with supervision of the use of the sums coming from the fund while assisting the beneficiary on the technical and economic level, through a guidance contract.

The internal regulations of the fund determine the maximum endorsement rate per loan, at 50% of the amount of outstanding loans, and the credit establishment takes on the responsibility for the other part of the risk by taking other guarantees deemed necessary: personal or joint guarantee, mortgage, collateral security, and others.

In case of loss, the management committee invites the bank to realize the other guarantees taken on the promoter as soon as it denounces the loan contract, before returning to the fund.

In addition, the endorsement agreements make it clear that the lending organization must first readjust the conditions of the loan(s). The SONEPI guarantee comes into play only at the last, after all the guarantees taken have been realized.

Today, SONEPI seeks to strengthen the endowment of funds in order to make it play its true role, and to reassure the bank, which generally wishes that the credit granted be covered by guarantees whose value very appreciably exceeds the amount of credit granted.

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In fact, the banks feel that the recourse clause set out in internal regulations of the guarantee fund does not create the conditions for bringing the guarantee into play in case of need.

1.6. Results of the guarantee fund

After a little more than 15 years of operation, the results of the activities of the management committee of the guarantee funds of SONEPI are the following: of 172 dossiers examined, 62 have been accepted but only 28 received bank financing of 334 million CFAF medium term credits, SONEPI having given its endorsement for 144 million CFAF on the endorsed dossiers.

One guarantee has been realized, while ten enterprises have repaid 85 million CFAF of credits endorsed by SONEPI for 42%.

Thirteen companies in operation or in the process of realization have benefited from 215 million CFAF of M.T. credits, endorsed for 90 million CFAF by SONEPI.

Some of these companies have benefited from rescheduling agreements; while for four companies in the process of rehabilitation and benefiting from 28,5 million CFAF medium term credits, guarantee provisions have been activated for 26 million CFAF.

ONGOING GUARANTEES AS OF 06/30/1986

1. Operating SMEs

Company	Credit Institutions	Date of Guarantee Agreement	Medium Term Credit	SONEPI Guarantee	Reserves made as of 6/3/86
Boulangerie de Rufisque	:BNDS	: 05/05/75	: 10,963,000	: 5,500,000	: 2,750,00
Richard Toll Ind. and Tech. Complex (Sugar company)	:BICIS	: 11/11/75	: 31,000,000	: 10,000,000	
E.M.M.F.	:BNDS	: 12/08/76	: 8,888,000	: 4,444,000	
ROTABILLETES (ticket manufacture)	:SOFISEDIT	: 11/26/76	: 17,300,000	: 8,650,000	
Boulangerie Ind. St. Louis	:USB	: 12/13/79	: 6,186,000	: 3,093,000	
Menuiserie Touba	:SOFISEDIT/ : USB	: 01/25/80	: 14,000,000	: 5,627,000	
Bons Meubles Cap-Vert	:SOFISEDIT/ : BSK	: 01/25/80	: 28,000,000	: 11,239,000	
Garage Kjibril SAMB	:SOFISEDIT/ : USB	: 01/25/80	: 16,000,000	: 8,000,000	: 4,000,000
Confection Momar LISSA	:SOFISEDIT/ : BSK	: 04/18/80	: 25,000,000	: 12,500,000	
Menuiserie S. NDIAYE	:SOFISEDIT/ : BSK	: 04/18/80	: 19,000,000	: 7,167,500	: 3,583,750
SENEGAL ALU	:SOFISEDIT	: 10/18/85	: 19,000,000	: 9,500,000	
			:195,337,000	: 85,720,500	: 10,333,750

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2. Inactive SMEs

Company	Credit Institutions	Date of Guarantee Agreement	Medium Term Credit	SONEPI Guarantee	Reserves made as of 6/3/86
SICB	BNDS	05/05/75	8,000,000	4,000,000	4,000,000
Garage Mecanique Auto NDIONGUE	BNDS	12/08/76	3,978,000	1,989,000	1,989,000
Confection MANE (Guarantee realized)	SOFISEDIT/ BNDS	01/25/80	5,250,000	2,625,000	2,625,000
PINSER (Recovery plan):	BICIS	07/14/77	11,500,000	4,500,000	4,500,000
Torréfaction de Café	SOFISEDIT	03/08/79	5,000,000	2,500,000	2,500,000
TOTAL			33,728,000	15,614,000	15,614,000

3. Planned SMEs (Partial provision of credit)

Cartoucherie Sénégal	BNDS	05/05/75	12,000,000	4,000,000	-
Boulangerie DIARAMA	BNDS	07/04/78	16,700,000	8,350,000	-
TOTAL			28,700,000	12,350,000	-

(Source: SONEPI)

4. Status of reimbursements of medium term credits (Agreements cancelled: releases obtained with the banks)

BENEFICIARIES	Credit Insti- tutions	G U A R A N T E E		Medium Term Credit
		Agreement	Amount	
1. Menuiserie "Le Fer Forgé"	:BIAO	: 08/29/73	: 2,500,000	: 4,900,000
2. S.S.A.A.	:BIAO	: 01.21.74	: 2,500,000	: 5,800,000
3. Menuiserie Métallique NDAO & DIENG	:USB	: 12/21/72	: 2,500,000	: 4,400,000
4. Garage de la Grande Mosquée	:USB	: 12/21/72	: 875,000	: 1,750,000
5. Fabrique de Boutons Aly SALEH	:USB	: 01/26/73	: 2,750,000	: 5,500,000
6. POLYSEN	:SQFISEDIT	: 11/30/76	: 12,500,000	: 27,000,000
7. ESCOM	:USB	: 06/11/77	: 1,600,000	: 3,200,000
8. SODACO	:BICIS	: 03/05/73	: 2,000,000	: 4,000,000
9. Atelier de Confection FAYE	:BNDS	: 06/08/77	: 600,000	: 1,200,000
TOTAL			: 27,525,000	: 57,750,000

(Source: SONEPI)

Finally, it should be noted that SONEPI is reimbursed for services rendered using the Fund, according to the Administrative Council's established schedule.

2. SHORT TERM CREDIT GUARANTEE FUND

2.1 Origin and resources of the Guarantee Fund

Faced with the reality of the lack of bank credits granted to SMEs for financing their circulating assets, SONEPI created a special fund to guarantee the short term credits granted to SMEs. This is not a GOS fund; it is for a definite group, and for only one bank.

The overall plan for financial assistance to SMEs lacked a schema for financing the needs of short term credits. After several negotiations with the local banks, the BNDS offered its services and made an agreement with SONEPI.

The basic points of the agreement are as follows:

- Establishment of a guarantee fund endowed with the resources of the grant provided by the West German GTZ, and the deposit of this fund in the BNDS;
- Opening by the bank of credit proportional to the sums deposited to the benefit of enterprises in activities in accord with the needs identified and controlled by SONEPI;
- For the credits granted by the BNDS, interest is indexed to the BCEAO preferential discount rate, plus one or two points and the tax on productive services (TPS).

The financial support of the GTZ, a West German cooperation agency, made possible the endowment of 15 million CFAF.

The SONEPI Board of Directors authorized start-up of the Fund in October 1985, and its internal regulations were definitively adopted in 1985.

2.2. Purpose and eligibility conditions of the Fund

The Fund allows a 100% guarantee of the short term credits granted to the SMEs.

The Fund is open to all SMEs, as well as to production and service artisans that receive technical assistance from SONEPI and whose requests have been submitted by the concerned technical service.

Borrowers must have a current commercial account opened in the books of the BNDS.

2.3. Management and administration of the Fund

The Fund is managed by SONEPI, which keeps separate accounts with respect to its use.

The Fund's principal resources come from all loans, grants or gifts acquired by SONEPI, and supplementary resources consisting of interest on loans, fees from dossiers paid up by the promoters, and penalties for late payments.

A Management Committee has been established, comprised of all the technical services of SONEPI involved in the operation and the representative of the BNDS.

Decisions are taken by the majority, conforming to an internal regulation which fixes the conditions of the administration of funds and defines the composition of the Committee and the conditions under which it meets, deliberates, specifies the manner of delegation of power, and sets forth the rules relating to the use of resources, etc.

2.4. Results of the Fund

In two years of operation, the Fund has examined 20 guarantee request dossiers, granted 12 million CFAF for the carrying out of 39.6 million

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CFAF of business with the private sector. Yet again, the low level of the guarantee fund greatly reduced the impact it had on the needs of this type of enterprise. The Fund has above all dealt with the production and service artisans whose operating credits are generally covered by 1 or 2 million CFAF, even though SME business is between 20 and 100 million CFAF.

Of the total credits guaranteed by the Fund, only one default has been registered, and five dossiers are active. The operation having been conclusively verified, SONEPI is at present seeking additional funds, to facilitate obtaining short term credits from all the banks.

The following are the current terms and conditions of concession of guarantees and mobilization of credits applying to the SMEs and to the artisans that have opened a current commercial account with the BNDS and signed a technical assistance contract with SONEPI:

- guarantee of 100% of a maximum credit of 1,5 million CFAF reimbursable in a maximum period of 120 days;
- collateral security to the profit of the BNDS of a business deal made exclusively with the private sector;
- technical assistance by SONEPI to assure a successful outcome of the operation.

It should be noted that there are no personal guarantees carried by the client and the bank automatically debits the Fund in case of default at the due date. SONEPI then takes customary legal action against the customer.

MANAGEMENT COMMITTEE - SHORT TERM CREDIT GUARANTEE FUND - POSITION AS OF 06/30/86

NAME OF ENTERPRISE	TYPE OF ACTIVITY	AMOUNT OF CONTRACT	AMOUNT OF SHORT TERM CREDIT		DECISION	COMMENTS
			REQUESTED	GRANTED		
1. Menuiserie Ameth SANS	SME	2,525,822	1,000,000	1,000,000	Accepted	Credit provided and repaid
2. Entreprise NDIAWAR GUEYE	SME	4,317,635	1,500,000	-	Accepted subject to compl. info.	Withdrawal of dossier
3. SENEGARAGE	SME	1,160,910	800,000	-	Withdrawal	Withdrawal because of incomplete info
4. La Petite Calorie	AE	1,014,900	745,800	-	Withdrawal	
5. CETC Mr. Djibril DITNG	AE	2,412,700	1,000,000	1,000,000	Accepted	Credit provided and repaid
		2,475,900	1,360,000	1,360,000		
6. Babacar LLYE Maçon à MBOURK	AE	3,068,043	1,450,000	1,450,000	Accepted	Credit provided and repaid
7. Entreprise de couture Mme Daga DIOUF	AE	3,050,000	1,500,000	1,500,000	Accepted subject to compl. info.	Credit provided
8. Société Africaine de Montage Industriel	SME	2,607,215	1,000,000	-		Withdrawal of dossier
9. Horlogerie Sandaga Mr. Balla MBENGUE	AE	1,000,000	1,000,000	1,000,000	Accepted	Credit provided
10. SENEGARAGE - Mr. Abdoulaye BA	AE	1,496,186	1,148,156	1,148,156	Accepted	Credit provided and repaid
11. Imprimerie Cheikh	AE	2,761,200	1,360,600	-	Rejected	Purchase orders too old
12. Entreprise Grande Mosquée Menuiserie L.H.O. THIAM	AF	1,572,520	1,322,151	-	Rejected	Non-assisted - lack of financial data
		29,473,031	15,206,707	8,456,156		

AE : Artisanal enterprise

(Source: SONEPI)

3. ARTISANAL ENTERPRISE GUARANTEE FUND

3.1. Generalities

The guarantee fund for artisans is part of the measures advocated by the GOS in the context of the policy followed for the promotion of production and service artisans.

In the same context are the decisions for redeployment which, in the first place, allowed for the creation of a Direction de l'Artisanat within the Ministry of Industry, and then of the Société Sénégalaise pour la Promotion de l'Artisanat d'Art (SOSEPRA), and finally, the establishment within SONEPI of an Artisanat Section charged with technical assistance to artisans.

Secondly, the Chambres des Métiers were created, organized within a Union, and the activities of SOSEPRA and SONEPI were transferred to the artisanal organizations.

All these changes took place between 1985 and 1986, the period during which SONEPI and SOSEPRA began their guarantee operations for credits to this category of enterprise.

3.2. SOSEPRA guarantee fund

To begin with, for the artisans followed by SOSEPRA, it was intended to set up a fund to cover part of the risk attending the credits granted to these enterprises by the banks for the acquisition of raw materials and small equipment.

The method of the fund's operation not having been determined, and there being no line of credit intended for this type of credit, the SOSEPRA authorities proposed the transformation of the 30 million CFAF endowment paid in by the GOS budget into a purchasing comptoir. The comptoir is authorized to buy and sell raw materials intended to satisfy the current needs of the artisans.

The management of the purchasing comptoir was transferred to the Chambre des Métiers de la Région de Dakar, at the time of the liquidation of the SOSEPRA decided on by the public authorities.

3.3. SONEPI artisanat guarantee fund

On the other hand, the medium term credit guarantee fund intended for artisans and entrusted to SONEPI has operated in a satisfactory manner despite the difficulties encountered for launching the service.

Established in 1978, when the Conseil Interministériel sanctioned the promotion of artisanal industries, the fund was turned over to SONEPI, which centralized the assistance given to the production and service artisans.

The agencies of the fund are:

- the Secretariat ensured by SONEPI's Service des Fonds;
- the Management Committee charged with applying the internal regulations of the fund;
- SONAGA, with whom an agreement has been reached for the financing of the artisans' credit operations.

The Fund intervenes exclusively to assist production and service artisans to obtain bank credits intended for financing their working capital and their equipment.

In 1980, the guarantee fund was endowed with 60 million CFAF by the GOS and the French Caisse Centrale, an amount raised to 97 million CFAF by the interest and guarantee fees received.

Status of the guarantee fund for service and production
artisans as of 06/30/1986

Resources

. GOS and CCCE allocation (1980)	60,000,000
. Carry-over	28,005,200
. Results of year 1985/86	<u>6,148,665</u>
Total Resources	94,153,865 =====

Uses

. Long term deposit in bank	60,000,000
. Available assets	<u>34,153,865</u>
Total Uses	94,153,865 =====

(Source: SONEPI)

The financial position of the fund appears to be satisfactory, as is its current operating account.

Operating charges and proceeds of the fund - 1985/86

Proceeds

. Credit interest on term deposit	7,550,125
. Guarantee fees	<u>411,071</u>
Total Proceeds	8,061,196 =====

Charges

. Account fees + T.P.S.	1,300,521
. Income taxes	<u>612,010</u>
Total Charges	<u>1,912,531</u>
Year's Profit	6,148,665

(Source: SONEPI)

As of 06/30/86, eight dossiers benefited from SONABANQUE medium term credits of 55,2 million CFAF, over a period of 3 to 5 years, the outstanding amount of SONEPI's guarantee being 39,9 million CFAF.

Projects accepted by SONEPI/Ongoing guarantees

ENTERPRISES	Credit Institutions	Investments	Medium Term Credit	Outstanding Guarantee
1. Atelier de Confection (I.B. GUEYE)	SONABANQUE	2,801,700	2,266,000	1,699,500
2. Meubles de Dargny (Ousmane DIOUF)	"	2,866,725	2,500,000	1,875,000
3. Horlogerie Sandaga (Balla MBENGUE)	"	4,162,031	3,129,900	2,347,425
4. Imprimerie BAMBA (Moustapha GUEYE)	"	-	15,911,190	11,933,392
5. Entreprise de Confection (Gass TALL)	"	5,583,900	4,000,000	3,000,000
6. Centre de Couture KOLDA (Mme KANDE)	"	4,000,000	3,200,000	2,400,000
7. Ext. Menuiserie Ebénisterie (I.SALL)	"	3,205,000	2,221,000	1,665,750
8. Laboratoire Couleur	"	12,336,534	8,000,000	6,000,000
TOTAL			55,228,090	30,921,067

(Source: SONEPI)

Repayments are carried out normally: on 9,2 million CFAF outstanding loans due, unpaid loans represent less than 20%.

On July 3, 1986, SONEPI agreed to guarantee ten investment dossiers for 89,6 million CFAF, financed by SONABANQUE for 61,3 million CFAF in the form of medium term credits and a guarantee by SONEPI for 46 million CFAF.

Projects accepted 07/03/86 - Guarantees pending at that date

Projects accepted by SONEPI/Ongoing guarantees

ENTERPRISES	Credit Institutions	Investments	Medium Term Credit	Outstanding Guarantee
1. Menuiserie Ibra DIEYE à THIES	SONAGA	12,715,000	10,260,000	7,695,000
2. Entreprise Dame POUYE à THIES	"-	11,880,000	8,460,000	6,345,000
3. Entreprise VIEBA Chaussures DAKAR	"-	3,076,313	2,768,682	2,076,511
4. Cordonnerie "CAPIT" DAKAR	"-	7,245,900	6,521,310	4,890,982
5. Couture et Broderie à ZIGUINCHOR	"-	3,208,500	2,887,650	2,165,783
6. Menuiserie Métallique à RUFISQUE	"-	2,787,500	2,508,750	1,881,563
7. AW - Ameublement DKR	"-	6,167,920	5,551,128	4,163,346
8. Ext. Studio Photo. DAKAR	"-	3,332,592	2,635,733	1,976,799
9. Imprimerie SERIMCOTA DAKAR	"-	29,690,413	14,661,702	10,996,276
10. Atelier Réparations Navales)	"-	9,536,000	5,031,000	3,773,250
TOTAL		89,640,138	61,285,955	45,964,465

(Source: SONEPI)

SONEPI contacted all the banks to inform them of the guarantee fund operating mechanisms, and to invite them to open their operations to the artisans, with the fund's coverage of their risks up to 75%.

SONAGA would agree to finance the artisanal projects studied and selected jointly with the Union Nationale des Chambres des Métiers, under the following conditions:

- financing of projects is in accordance with the funds placed with it;
- technical assistance is provided to the enterprise by SONEPI;
- the guarantee does not influence the financing decision;
- the interest rate is at the rate used for the deposit.

The guarantee concession mechanism assumes the presentation of a project entailing a market study and the technical advice of the Union Nationale des Chambres des Métiers. The beneficiary of the credit bears a 1% guarantee fee calculated on the amount of the guarantee, and provides to SONABANQUE guarantees specific to the loan contract. The guarantees on the beneficiary are of the first rank and SONABANQUE, in case of non-payment of required sums on time, can realize the guarantees and cover them by the fund if necessary.

The results attained by the Fund, which were transmitted to the Union Nationale de Chambres des Métiers in July 1987, allow the hope that the mistrust of the financial backers regarding artisan credit will be progressively dissipated to encourage the allocation of more and more substantial resources to the artisan sector.

ARTISAN GUARANTEE FUND

COMMITMENTS MADE - OUT OF THE BALANCE SHEET AS OF 06/30/86

ASSETS IN CFAF			POTENTIAL GUARANTEE ASSETS	
POSTS	AMOUNT	Coeffi- cients	POSTS	POTENTIAL
Guarantee fund in bank	94,153,865	5	Commitment potential	470,769,325
.Long term deposit 60,000,000				
.Available assets 34,153,865				
Current guarantees	30,921,067	5	Current potential	154,605,335
Pending guarantees	45,964,465	5	Potential solicited	229,822,325
Available net guarantees	17,268,333	5	Commit. margin avail.	86,341,665

(Source: SONEPI)

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CONSTRAINTS ON THE SENEGALESE BANKING SYSTEM THAT LIMIT
CREDIT TO SMALL AND MEDIUM ENTERPRISES

ANNEX B

STATISTICS

ANNEX B: STATISTICS

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SMEs FINANCED BY SOFISEDIT MEDIUM AND LONG TERM CREDITS

Names	Approval Date	Total Cost of Project	SOFISEDIT Share	Loan Period	Grace Period	Rate	Status of Project	Credit Line	Credit Rate	Capital Due as of 9/30/81 (mil. CFAF)
Pinsar I	08/22/75	49,000,000	15,000,000	8	2	10.5	Liquidation	BIKD 1	7.25%	15.00
scenscic	08/22/75	79,000,000	8,000,000	5	1	7.5	Doubtful	SOF	6.00%	5.30
sabipec	01/29/76	110,000,000	48,000,000	10	1	10.5	Liquidation	BIKD 1	7.25%	48.00
notabillets	09/28/76	25,000,000	14,000,000	6	1	12.0	Doubtful	BIKD 1	7.25%	5.20
Siraema	09/28/76	76,000,000	30,000,000	5	1	12.0	Doubtful	BIKD 2	8.90%	18.75
Pinsar II	01/19/77	(extension)	8,000,000	8	2	10.5	Liquidation	BIKD 1	7.25%	0.00
Nimo	05/12/77	35,000,000	17,000,000	6	1	13.0	Liquidation	BIKD 1	7.25%	17.50
S 2 m	05/12/77	86,000,000	30,000,000	5	1	12.0	Liquidation	SOF	6.00%	15.00
Mel el Aly	01/27/78	35,000,000	15,000,000	6	1	13.0	Cleared	BIKD 1	7.25%	
umar Mané	01/27/78	7,000,000	3,159,000	5	1	12.0	Cleared/SUNEPI	KFW 1	8.30%	1.58
sons meubles	08/22/78	44,000,000	15,000,000	6	1	8.5	Cleared	KFW 1	8.30%	Cleared
orange sabb	09/22/78	23,000,000	8,000,000	7	1	12.0	Doubtful	SOF	6.00%	4.50
Scortiq. Touba	02/09/79	155,000,000	60,000,000	6	1	10.0	Cleared	OUAD	7.50%	Cleared
Aspral	02.09.79	7,300,000	5,000,000	5	1	12.0	Liquidation	KFW 1	8.30%	5.00
Mouiserie Touba	06/22/79	20,000,000	10,000,000	7	2	13.0	Satisfactory	KFW 1	8.30%	No arrears
" S. Ndoye	06/29/79	24,000,000	12,000,000	7	1	12.0	Liquidation	KFW 1	8.30%	12.00
umar Lissa Diop	06/29/79	32,000,000	15,000,000	7	1	12.0	Liquidation	KFW 1	8.30%	12.00
Boulangerie OUM	06/29/79	22,000,000	7,000,000	7	1	12.0	Cleared	KFW 1	8.30%	Cleared
Set weth	01.19/82	23,000,000	10,000,000	6	1	13.5	Cleared	KFW 1	8.30%	Cleared
Chak Soulier	05/07/82	1,280,000	10,000,000	7	1	13.5	Satisfactory	KFW 1	8.30%	No arrears
Sénégal Alum.	07/17/85	22,000,000	19,000,000	6	1	11.0	Operational	KFW 2	9.00%	5.70
							immobilized			
		933,580,000	364,159,000							

(Source: SOFISEDIT)

SOFISEDIT

STATUS OF SME CREDITS AS OF 06/30/07

PROJECT	CALLLED MATURITIES	REPAYMENTS	OUTSTANDING AMOUNTS	CHARGES OF RECOVERY
THIAM MERMIER	9,000,000	451,538	8,548,462	
OMAR MANE	1,159,000	-	3,159,000	0%
SERIGNE NDIAYE	12,000,000	-	12,000,000	50% guarantee SOFISEP
MONAR LISSA DIOP	12,000,000	-	12,000,000	50% guarantee SOFISEP
SET WETH		Cleared		
SIFAENA	30,000,000	11,250,000	18,750,000	2 = 40%
KOTABILLETS	14,437,560	9,257,007	5,180,553	100%
MIMO	17,500,000	-	17,500,000	15%
SCENSIE	10,000,000	7,216,607	2,783,393	50%
DJIBRIL SAMB	4,500,000	-	4,500,000	50%
SENEGAL ALUMINIUM	5,700,000	-	5,700,000	
IBRAHIMA SARR		Cleared		
S 2 M	15,000,000	-	15,000,000	10%
PINSEK I	8,000,000	-	8,000,000	50%
PINSEK II	15,000,000	-	15,000,000	50%
SABIEC	48,000,000	-	48,000,000	50%
SOSEPRAL	5,000,000	-	5,000,000	50% guarantee SOFISEP
TOTAL	209,296,560	28,175,212	181,121,348	

(Source: SOFISEDIT)

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TABLE 1

SOFISEDIT - SME PROJECTS

CALLED UP AS OF 09/30/1987

PROJECT	CAPITAL	INTEREST	COMMISSION FEES	LATE CHARGES	TOTAL INTEREST	TOTAL EXCL. T.P.S.
SENEGAL ALUMINIUM	5,700,000	2,847,567	190,111	519,715	3,557,393	9,257,393
SABIEC	48,000,000	38,318,000	-	26,366,270	64,684,270	112,684,270
PINSEK I	8,000,000	4,570,886	102,000	5,114,281	9,787,147	17,787,147
PINSEK II	15,000,000	7,188,125	-	8,517,819	15,705,944	30,705,944
SIFAMA	13,344,384	8,819,317	-	3,555,675	11,174,992	24,519,376
ROTABILITE'S	5,170,479	-	-	4,804,877	4,804,877	9,975,356
SCENSCIE	1,650,000	-	-	-	-	1,650,000
SOSEPRAL	5,000,000	1,536,913	95,017	3,515,173	5,147,103	10,147,103
S Z M	15,000,000	1,372,500	85,783	12,312,926	13,771,211	26,771,211
MIMO	17,500,000	3,696,875	275,281	16,370,396	20,340,552	37,840,552
BOMAR LISSA DIOP	12,000,000	3,409,664	213,084	3,577,643	7,200,391	19,200,391
SEKIGNE NDIAYE	12,000,000	5,138,995	321,396	8,033,739	13,494,130	25,494,130
OMAR MARE	3,159,000	859,619	51,783	815,357	1,726,759	4,885,759
DIABILLI SARE	1,200,000	1,632,478	-	1,225,796	2,888,274	4,088,274
TOTAL	162,723,863	79,390,919	1,059,184	94,529,669	174,979,772	337,703,633

(Source: SOFISEDIT)

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TABLE 4

ESTIMATE OF DEFAULTS BY SMEs AS OF 06/30/87

SOFISEDIT: SME PROJECTS

<u>PROJECT</u>	<u>UNPAID</u>	<u>UNRECOVERABLE AMOUNT</u>
THIAM MERMIER	8,548,462	3,419,385
OMAR MANE	3,159,000	1,579,500
SERIGNE NDIAYE	12,000,000	6,000,000
MOMAR LISSA DIOP	12,000,000	6,000,000
SIFAEMA	18,750,000	11,250,000
ROTABILLETS	5,180,553	-
MIMO	17,500,000	14,875,000
SCENSCIE	2,783,333	1,391,667
DJIBRIL SAMB	4,500,000	1,800,000
SENEGAL ALLUMINIUM	5,700,000	--
S 2 M	15,000,000	13,500,000
PINSER I	8,000,000	5,600,000
PINSER II	15,000,000	10,500,000
SABIPEC	48,000,000	24,000,000
SOSEPRAL	5,000,000	2,500,000
TOTAL	181,121,348	102,418,552

(Source: SOFISEDIT)

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TABLE 2

EVOLUTION OF CREDITS TO SENEGALESE BUSINESSES 1/
(1975 - 1983)
(in millions of CFAF)

	December 1975		December 1976		December 1977		December 1978		December 1979	
	Risks	%								
Senegalese businesses	35451	61.27	37608	56.94	46175	54.53	62857	56.28	77553	56.39
Of which: SMTs	3654	6.32	4817	7.30	6298	7.44	7887	7.07	9230	6.72
Reference risks	57869	100.00	66053	100.00	84685	100.00	111705	100.00	137543	100.00
Risks excluded:										
UNCAD	35447		38774		36405		55289		63983	
SODEFITEX	3301		4170		3496		5294		4484	
OCD	3822		5329		6796		6772		6106	
CCCE	4219		4682		869		778		-	
SONACOS										
SEIB										
SUNAR										
CFSP										
TOTAL AMOUNT DECLARED TO CENTRALE DES RISQUES	104658		119008		132251		179836		214016	

1/ The banks are instructed to make available to Senegalese enterprises around 60% of the total amount of the "reference" credit risks reported to the Centrale des Risques. The "reference risks" exclude the institutions indicated in the lower part of this table.

(Source: BCEAO)

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EVOLUTION OF CREDITS TO SENEGALESE BUSINESSES 1/
(1975 - 1983)
(in millions of CFAF)

	December 1980		December 1981		June 1982		December 1982		December 1983	
	Risks	%	Risks	%	Risks	%	Risks	%	Risks	%
Senegalese businesses	93232	55.45	104815	56.50	113361	54.62	116742	54.40	210621	55.85
Of which: SMEs	16132	9.60	15413	8.31	16926	8.16	17338	8.08		
Reference risks	168141	100.00	185527	100.00	207550	100.00	214571	100.00	127265	100.00
Risks excluded:										
UNCAD	72164		82735		85948		85988		76492	
SODEFITEX	4352		3999		4655		3877		905	
UCD	7919		9292		9292		9293		9292	
CCCE	-		-		-		-		-	
SONACOS	3638		25804		12816		45246		29697	
SEIB	2602		7185		3417		3479		1425	
SUNAR	-		2955		936		4105		5312	
CPSP	-		-		303		525		2142	
TOTAL AMOUNT DECLARED TO CENTRALE DES RISQUES	258836		317497		324927		367088		377070	

1/ The banks are interested to make available to Senegalese enterprises around 60% of the total amount of the "reference" credit risks reported to the Centrale des Risques. The "reference risks" exclude the institutions indicated in the lower part of this table.

(Source: BCEAO)

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Annex 6

SECTORAL POLICY 1982 to 1984 - EVOLUTION OF RESULTS

	OBJECTIVES	RESULTS		
		DECEMBER 1982	DECEMBER 1983	DECEMBER 1984
CREDITS SUBJECT TO SECTORAL POLICY	100.00			
1 - PRIORITY FINANCING	67.00	63.30	64.70	63.74
- Medium and long term credits	31.00	24.00	22.10	25.83
1.1 - Agriculture, animal husbandry, fishing, handicrafts, tourism	16.00	11.60	10.16	12.34
1.2 - Acquisition of foreign assets by Nationals	1.50	1.12	0.70	0.20
1.3 - Real estate credits 1/	11.00	9.32	9.62	9.32
1.4 - Other equipment and productive investment credits 2/	2.50	1.96	1.62	3.57
- Short term credits	36.00	39.32	42.65	39.90
2.1 - Agriculture, animal husbandry	4.00	3.96	4.29	4.39
2.2 - Fishing	1.50	1.40	1.49	1.71
2.3 - Industries, handicrafts, tourism	20.00	22.80	26.83	23.01
2.4 - Civil engineering, building, P.W.	8.50	8.96	8.00	6.69
2.5 - Transport	2.00	2.20	2.20	2.10
2 - NON-PRIORITY FINANCING	33.00	36.68	35.24	36.26
1. - Trade	25.00	23.41	22.43	22.05
2. - Transit, handling	2.00	2.04	1.77	2.03
3. - Other credits 3_/	6.00	11.23	11.04	9.20
TOTAL CREDITS SUBJECT TO SECTORAL POLICY	100.00	100.00	100.00	100.00

1/ To individuals and real estate enterprises

2/ Medium and long term credits for transportation - civil engineering - building - public works

3/ Short term credits and medium and long term credits for individuals, not intended for low cost housing:

. Short term credits for real estate enterprises

. Credits to service enterprises

. Credits to forestry activities

. Miscellaneous

TABLE 7

SECTORAL POLICY - 1985 RESULTS
(in %)

	OBJECTIVE	RESULTS September 1985
<u>PRIORITY FINANCING</u>	71.00	63.18
- <u>Medium and long term credits</u>	31.00	25.04
1.1 - Industry, handicrafts, tourism, agriculture, animal husbandry, fishing	16.00	12.09
1.2 - Acquisition of foreign assets by Senegalese nationals	1.50	0.33
1.3 - Social housing credits	11.00	9.36
1.4 - Other equipment, productive investment credits	2.50	3.26
- <u>Short term credits</u>	40.00	38.15
2.1 - Agricult., animal husbandry	3.00	4.38
2.2 - Fishing	2.00	1.92
2.3 - Industry, crafts, tourism	22.00	22.36
2.4 - Civil engin., build., P.W.	7.00	6.70
2.5 - Transport	2.00	2.07
2.6 - Real estate promoters - social housing	4.00	0.71
<u>NON-PRIORITY FINANCING</u>	29.00	36.82
- Commerce	25.00	25.09
- Transit, handling	2.00	2.02
- Other credits	2.00	9.75

(Source: BCEAO)

TABLE 8 **SECTORAL POLICY - 1986 RESULTS**
(in %)

	RESULTS		OBJECTIVE
	AMOUNT	%	%
1 - <u>PRIORITY FINANCING</u>	182,926	61.64	71.00
1.1 <u>Medium and long term priority financing</u>	74,829	25.22	31.00
1.1/1 Industry, crafts, tourism, agriculture, fishing	36,410	12.27	16.00
1.1/2 Acquisition of foreign assets by Senegalese nationals	779	0.26	1.50
1.1/3 Low cost housing credits	26,348	8.88	11.00
1.1/4 Other equipment and productive investment credits	11,298	3.81	2.50
1.2 <u>-Short term priority financing</u>	108,097	36.42	40.00
1.2/1 - Agric., animal husbandry	12,832	4.32	3.00
1.2/2 - Fishing	5,321	1.79	2.00
1.2/3 - Industry crafts, tourism	59,896	20.18	22.00
1.2/4 - Buildings and P.W.	21,238	7.16	7.00
1.2/5 - Transport	6,113	2.06	2.00
1.2/6 - Real estate promoters	2,697	0.91	4.00
2 - <u>NON-PRIORITY FINANCING</u>	113,821	38.36	29.00
2.1 - Trade	73,265	24.69	25.00
2.2 - Transit, handling	6,618	2.23	2.00
2.3 - Other credits	33,938	11.44	2.00
<u>TOTAL CREDITS SUBJECT TO SECTORAL POLICY</u>	296,747	100.00	100.00
<u>CREDITS NOT SUBJECT TO SECTORAL POLICY</u>	119,965		
ONCAD	67,086		
SODEFITEX	3,694		
SONAR	-		
SONACOS	36,540		
SEIB CC	-		
SAR	5,913		
CPSP	2,910		
FINANCIAL INSTITUTIONS	3,822		
<u>TOTAL CREDITS</u>	416,712		

(Source: BCEAO)
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TABLE 9 **TOTAL CREDITS** (Average Outstanding, 1985)
(in million of CFAF)

1 - **BREAKDOWN OF CREDITS BY TERM**

	S.T.	M.T.	L.T.	TOTAL
Average Outstanding monthly (nominal)	230,595	92,251	52,656	375,502
. Private sector	174,443	70,178	1,569	246,190
. Public and parastatal	56,152	22,073	51,087	129,312
Medium term (in % of credits)	61.39	24.57	13.64	100.00
. Private sector	46.44	18.69	0.42	65.55
. Public and parastatal sector	14.95	5.88	13.62	34.45

	Nominal	% of total credits	% of line item
1. SHORT TERM CREDITS	230,595	61.39	100.00
- Private sector	174,446	46.44	75.65
. Wholesale trade	46,446	11.04	20.14
. Manufacture of food products	20,913	5.57	0.07
. Retail trade	19,742	5.25	8.56
. Transport and storage	10,208	2.72	4.43
. Chemical industry	8,695	2.32	3.77
. Leather, textile, clothing industry	8,219	2.19	3.57
. Other (private sector)	60,223	16.02	26.11
- Public sector	56,152	14.95	24.35
. Wholesale trade	27,150	7.23	11.77
. Financial institutions	11,124	2.96	4.82
. Food, drink, tobacco industry	5,799	1.54	2.51
. Other (public sector)	12,079	3.22	5.25

TABLE 9 (Cont'd.)

TOTAL CREDITS (Average Outstanding, 1985)
(in million of CFAF)

	Nominal	% of total credits	% of line item
2. <u>MEDIUM TERM CREDITS</u>	<u>92,251</u>	<u>24.57</u>	<u>100.00</u>
- <u>Private sector</u>	<u>70,178</u>	<u>18.69</u>	<u>76.07</u>
. Credits for individuals	14,624	3.90	15.85
. Manufacture of food, wood prods.	11,297	3.01	12.24
. Chemical industry	10,773	2.87	11.68
. Wholesale trade	5,648	1.51	6.12
. Restaurants, hotels, tourism	4,658	1.24	5.05
. Other (Private Sector)	23,178	6.17	25.12
- <u>Public sector</u>	<u>22,073</u>	<u>5.88</u>	<u>23.93</u>
. Low cost housing business	9,521	2.53	10.32
. Wholesale trade	7,790	2.07	8.44
. Other (public sector)	4,762	1.27	5.16
3. <u>LONG TERM CREDITS</u>	<u>52,656</u>	<u>13.64</u>	<u>100.00</u>
- <u>Private sector</u>	<u>1,569</u>	<u>0.42</u>	<u>2.98</u>
. Loans to individuals	707	0.19	1.34
. Restaurants, hotels tourism	369	0.10	0.70
. Manufacture of food, wood, tobacco products.	167	0.04	0.31
. Others (Private sector)	326	0.08	0.62
- <u>Public sector</u>	<u>51,087</u>	<u>13.62</u>	<u>97.02</u>
. Wholesale trade	50,948	13.57	96.75
. Public administration	99	0.03	0.19
. Fishing	27	0.01	0.05
. Real estate	13	0.01	0.02

(Source: Centrale des Risques)

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BREAKDOWN OF LOAN BENEFICIARIES BY ACTIVITY AND BY SIZE OF AVERAGE OUTSTANDING LOAN IN 1965

Activities	Total		Outstand.														
	Number of Users	loan less than 15 M	15 to 29	30 to 49	50 to 74	75 to 99	100 to 149	150 to 199	200 to 299	300 to 399	400 to 499	500 to 749	750 to 999	1000 to 1249	1250 to 1499	1500 plus	
TOTALS																	
Agriculture and hunting	42	12	12	3	1	2	-	4	3	1	2	2	-	-	-	-	-
Sylviculture, forestry operations	2	1	-	-	-	1	-	-	-	-	-	2	-	-	-	-	-
Fishing	71	10	21	8	8	8	6	2	3	-	2	-	-	-	-	-	-
Mining	15	1	2	4	3	-	3	1	-	-	-	1	2	1	-	-	-
Manuf. food prod., drinks, tobacco	121	38	24	14	6	6	8	3	1	1	7	4	3	2	1	3	-
Clothing, textiles, leather ind.	39	11	4	4	6	1	3	-	2	2	-	3	1	2	1	3	-
Wood industry, minur. wood works	29	6	7	3	2	2	2	1	1	3	1	1	-	-	-	-	-
Paper manuf., printing, edit.	36	13	9	3	3	1	1	1	2	2	-	-	1	-	-	-	-
Chemical ind., manur. chem. prods.	46	3	11	6	2	5	5	1	7	2	1	-	-	1	-	-	-
Manufacture of non-metal. minerals	10	-	1	1	2	2	-	-	-	1	-	1	-	-	-	-	-
Basic metallurgic industries	2	-	-	2	-	-	-	-	-	-	-	-	1	-	-	-	-
Manur. of metal works, metal mach.	40	6	10	3	7	3	3	1	1	-	-	1	1	-	-	-	-
Other industrial manufactures	16	4	5	3	1	1	-	-	-	-	-	-	-	-	-	-	2
Electricity, gas, steam	4	-	-	-	1	1	-	-	-	1	-	-	-	-	-	-	-
Install. of water, public water dis.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buildings and public works	166	46	45	19	9	9	6	8	4	10	1	2	2	1	-	-	2
Wholesale trade	575	170	115	74	54	35	41	25	11	9	10	9	3	1	-	-	2
Retail trade	630	215	210	91	57	12	15	16	8	2	-	3	-	1	-	-	6
Restaurants, hotels, tourist inst.	68	19	15	6	9	2	2	3	3	2	-	3	-	1	-	-	-
Transport and warehousing	372	249	47	32	17	4	6	3	7	2	2	1	1	-	-	-	1
Financial institutions	6	-	-	-	2	-	-	-	1	-	-	-	-	1	-	-	2
Insurance	7	-	2	3	1	-	1	-	-	-	-	-	-	-	-	-	-
Real estate businesses, serv. for entrepreneurs	128	44	33	15	10	6	7	1	2	3	3	1	1	-	-	-	-
Public admin., soc. expenditures	5	3	1	-	-	1	-	-	-	-	-	-	-	-	-	-	2
Sanitary and analogous services	3	1	-	-	-	1	-	-	-	-	-	-	-	-	-	-	-
Social services	75	29	19	12	6	2	3	1	1	1	-	-	-	-	-	-	-
Recreation, cultural services	16	3	4	6	1	1	1	-	-	-	-	-	-	-	-	-	-
Services to households, individuals	30	10	11	4	1	2	1	-	-	-	-	1	-	-	-	-	-
Foreign, local and other organiz.	1	-	-	-	1	-	-	-	-	-	-	-	-	-	-	-	-
Non-specific sectors	265	134	83	26	12	5	3	1	1	-	-	-	-	-	-	-	-
Individual loans	811	333	259	105	54	25	20	2	5	5	2	-	1	-	-	-	-
TOTAL	3633	1365	950	447	286	138	139	74	64	46	32	33	21	7	5	26	

(Source: Centrale des Rieques)

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TABLE 11

BREAKDOWN OF LOAN BENEFICIARIES
BY SIZE OF AVERAGE OUTSTANDING LOAN, 1985

(Loans in million of CFAF)

SIZE OF OUTSTANDING LOANS		:	NUMBER OF BENEFICIARIES
		:	
		:	
Less than	15 Million		1365
15 to	29 M		950
30 to	49 M		447
50 to	74 M		286
75 to	99 M		138
100 to	149 M		139
150 to	199 M		74
200 to	299 M		64
300 to	399 M		46
400 to	499 M		32
500 to	749 M		33
750 to	999 M		21
1000 to	1249 M		7
1250 to	1499 M		5
1500 and more			<u>26</u>
TOTAL			3633

(Source: Centrale de Risques)

See Table 10 above.

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TABLE 12

ALL BRANCHES - 1986

BREAKDOWN OF CREDITS BY TERM AND BY CATEGORY (Credits to private sector - credits to public sector)

(in millions of CFAF)

	SHORT TERM		MEDIUM TERM		LONG TERM		TOTAL		
	1985	1986	1985	1986	1985	1986	1985	1986	Variation
Average credits outstanding (in million of CFAF)	230,595	247,655	92,251	88,244	52,656	70,176	375,302	400,777	+ 30,575
- Private sector	174,443	182,745	70,176	73,965	1,200	2,636	245,621	239,546	+ 15,725
- Public sector	56,152	64,910	22,073	14,279	51,456	67,542	129,681	140,531	+ 10,850
Average credits outstanding (in %)	61.39%	60.99%	24.57%	21.73%	14.04%	17.26%	100.00%	100.00%	0
- Private sector	46.44%	45.00%	18.69%	18.19%	0.32%	0.70%	65.45%	61.60%	- 1.55%
- Public sector	14.95%	15.99%	5.83%	3.54%	13.72%	16.56%	34.55%	38.10%	+ 1.55%

(Source: Centrale de Risques)

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TABLE 13

BREAKDOWN OF CREDITS BY TERM AND ACTIVITY IN 1986

	: Average : Credit : Outstanding :(in millions : of CFAF)	: Average : Credit : Outstanding :(in % of : total)	: Average Credit : Outstanding :(in % of : type of credit)
<u>1. SHORT TERM CREDITS</u>	: <u>247,655</u>	: <u>60.99</u>	: <u>100.00</u>
<u>Private sector</u>	: <u>182,745</u>	: <u>45.99</u>	: <u>73.79</u>
Wholesale trade	: 41,813	: 10.30	: 16.88
Retail trade	: 21,114	: 5.20	: 8.52
Food processing	: 20,593	: 5.07	: 8.31 (CSS 8,489)
Buildings and P.W.	: 19,636	: 4.83	: 7.93 (EGCAP 4,768)
Transport and warehousing	: 10,301	: 2.54	: 4.16
Chemical industries	: 10,069	: 2.48	: 4.06
Other private	:	:	:
<u>Public and para- public sector</u>	: <u>64,910</u>	: <u>15.99</u>	: <u>26.21</u>
Wholesale trade	: 36,691	: 9.04	: 14.81 (ONCAD)
Financial instit.	: 13,088	: 2.90	: 5.28 (OCD 9,292)
Other public and para-public	:	:	:
<u>2. MEDIUM TERM CREDITS</u>	: <u>88,244</u>	: <u>21.73</u>	: <u>100.00</u>
<u>Private sector</u>	: <u>73,965</u>	: <u>18.19</u>	: <u>83.82</u>
Individual loans	: 14,279	: 3.56	: 16.18
Food processing	: 11,623	: 2.86	: 13.17 (CSS 8,443)
Chemical industry, fab. chem. prod.	: 10,826	: 2.66	: 12.27 (EGCAP 5,160)
Wholesale trade	: 5,422	: 1.34	: 6.14
Restaurants, hotels, inst. tourist.	: 4,931	: 1.21	: 5.59
Other private sectors	: 26,884	: 6.56	: 30.46
<u>Public and para- public sector</u>	: <u>14,279</u>	: <u>3.54</u>	: <u>16.18</u>
Real estate	: 9,550	: 2.35	: 10.82 (SICAP 8,314) (OHLM 1,145)
Other public sectors	: 4,729	: 1.19	: 5.36

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BREAKDOWN OF LOAN BENEFICIARIES BY SIZE OF AVERAGE OUTSTANDING LOAN IN 1980 BY SUB-BRANCH OF ACTIVITY

ACTIVITY	Total	Outstand.														
	Number	loan	: 15	: 30	: 50	: 75	: 100	: 150	: 200	: 300	: 400	: 500	: 750	: 1000	: 1500	: 1500
	of	less	to	to	to	to	to	to	to	to	to	to	to	to	to	to
		than 15 M	: 29	: 49	: 74	: 99	: 149	: 199	: 299	: 399	: 499	: 749	: 999	: 1249	: 1499	plus
Agriculture and hunting	: 45	: 12	: 11	: 8	: 2	: 1	: 1	: 3	: 2	: 1	: 1	: 2	: 1	: -	: -	: -
Sylviculture, forestry operations	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -
Fishing	: 65	: 10	: 18	: 6	: 4	: 7	: 10	: 2	: 2	: 1	: -	: 1	: 2	: 1	: 1	: -
Mining	: 14	: -	: 2	: 3	: 5	: 1	: -	: 1	: 1	: -	: -	: -	: -	: -	: -	: -
Manuf. food prod., drinks, tobacco	: 107	: 28	: 22	: 16	: 6	: 3	: 9	: 1	: 2	: 2	: 3	: 6	: 4	: 1	: -	: 3
Clothing, textiles, leather ind.	: 36	: 9	: 7	: 4	: 7	: 2	: 2	: 2	: -	: 1	: 1	: -	: -	: -	: 1	: 1
Wood industry, manuf. wood works	: 27	: 7	: 4	: 3	: 4	: -	: 3	: -	: 2	: 1	: 1	: 2	: 3	: -	: -	: -
Paper manuf., printing, edit.	: 34	: 12	: 8	: 4	: 2	: 3	: 1	: 1	: 1	: 1	: 1	: -	: -	: -	: -	: -
Chemical ind., manuf. chem. prod.	: 48	: 4	: 11	: 5	: 3	: 6	: 4	: 3	: 4	: 1	: 1	: -	: -	: -	: 3	: 1
Manufacture of non-metal. minerals	: 9	: -	: 1	: -	: 2	: 2	: -	: -	: 1	: 1	: -	: -	: 1	: -	: -	: 1
Basic Metallurgic industries	: 2	: -	: 1	: 1	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -
Manuf. of metal works, metal mach.	: 40	: 4	: 13	: 6	: 4	: 3	: 2	: 3	: 1	: -	: 1	: -	: 1	: -	: 2	: -
Other industrial manufactures	: 11	: 2	: 1	: 3	: 2	: -	: 1	: -	: 1	: -	: -	: -	: 1	: 1	: -	: -
Electricity, gas, steam	: 4	: -	: -	: -	: 1	: -	: -	: -	: 1	: -	: -	: -	: -	: -	: -	: 2
Install. of water, public water dis.	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -
Buildings and public works	: 158	: 50	: 39	: 12	: 11	: 9	: 6	: 4	: 9	: 6	: 3	: 1	: 1	: 3	: -	: 2
Wholesale trade	: 536	: 124	: 127	: 73	: 63	: 35	: 29	: 28	: 16	: 7	: 11	: 10	: 2	: 1	: 1	: 7
Retail trade	: 721	: 278	: 216	: 104	: 53	: 24	: 16	: 11	: 6	: 4	: 2	: 1	: 1	: -	: 1	: 2
Restaurants, hotels, tourist inst.	: 65	: 15	: 16	: 5	: 7	: 2	: 1	: 2	: 3	: 1	: 4	: 3	: 3	: -	: -	: 1
Transport and warehousing	: 362	: 269	: 39	: 16	: 13	: 6	: 3	: 3	: 2	: 2	: 2	: 1	: 3	: -	: -	: 1
Financial establishments	: 6	: -	: -	: 1	: 1	: -	: -	: -	: 1	: -	: -	: -	: -	: 1	: -	: 2
Insurance	: 6	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -
Building contracts for entrepren.	: 126	: 40	: 29	: 21	: 11	: 7	: 5	: 2	: 1	: 2	: 3	: 1	: 1	: -	: 1	: 2
Public Admin., GOS expenditures	: 4	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -
Sanitary and analogous services	: 3	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: 1	: -	: -
Social services	: 51	: 19	: 12	: 8	: 5	: 2	: -	: 3	: 1	: -	: -	: -	: -	: -	: 1	: -
Recreational, cultural services	: 14	: 2	: 4	: 4	: 2	: 1	: 1	: -	: -	: -	: -	: -	: -	: -	: 1	: -
Services to households, individuals	: 29	: 11	: 11	: 1	: 2	: 2	: -	: -	: -	: 3	: -	: 1	: -	: -	: -	: -
Foreign, local and other organiz.	: 2	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -	: -
Non-specific sectors	: 466	: 223	: 130	: 41	: 23	: 4	: 6	: 4	: 3	: 2	: 1	: -	: -	: -	: -	: -
Individual loans	: 367	: 220	: 100	: 55	: 29	: 19	: 4	: 5	: 4	: 1	: 2	: -	: 1	: -	: -	: -

(Source: Centrale des Risques)

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TABLE 13

BREAKDOWN OF LOAN BENEFICIARIES BY SIZE OF AVERAGE OUTSTANDING LOAN IN 1986 BY BRANCH OF ACTIVITY

ACTIVITIES	Total	Outstdg.	15	30	50	75	100	150	200	300	400	500	750	1000	1250	1500
	: Number : Users	: Cred. less : than 15 \$: to : 29	: to : 49	: to : 74	: to : 99	: to : 149	: to : 199	: to : 299	: to : 399	: to : 499	: to : 749	: to : 999	: to : 1249	: to : 1499	: plus
ALL BRANCHES	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
Agriculture	: 113	: 24	: 29	: 14	: 6	: 9	: 11	: 5	: 4	: 2	: 1	: 3	: 3	: 1	: 1	: -
Mining	: 14	: -	: 2	: 3	: 5	: 1	: -	: 1	: 1	: -	: -	: -	: -	: -	: 1	: -
Manufacturing industries	: 314	: 66	: 64	: 41	: 30	: 21	: 22	: 10	: 12	: 7	: 7	: 9	: 10	: 1	: 7	: 6
Electricity - gas - water	: 4	: -	: -	: -	: -	: -	: -	: -	: 1	: -	: -	: -	: -	: -	: -	: 2
Buildings and public works	: 158	: 50	: 39	: 12	: 11	: 9	: 6	: 4	: 9	: 8	: 3	: 1	: 1	: 3	: -	: 2
wholesale and retail trade, restaurants, hotels	: 1322	: 417	: 361	: 182	: 123	: 61	: 46	: 41	: 29	: 12	: 17	: 14	: 6	: 1	: 2	: 6
Transport, warehouse, communic.	: 364	: 270	: 39	: 16	: 13	: 7	: 3	: 5	: 2	: 2	: 2	: 1	: 3	: -	: -	: 1
Insurance, real estate, services to enterprises	: 138	: 41	: 31	: 23	: 12	: 9	: 5	: 2	: 2	: 2	: 2	: 1	: 1	: 1	: 1	: 4
Services furnished to groups pers. social services	: 1336	: 616	: 378	: 154	: 87	: 39	: 27	: 11	: 9	: 7	: 2	: 3	: -	: 2	: 1	: -
TOTAL - 1986	: 3763	: 1484	: 943	: 446	: 288	: 156	: 122	: 79	: 69	: 40	: 35	: 32	: 24	: 9	: 13	: 23
TOTAL - 1985	: 3635	: 1366	: 950	: 446	: 286	: 139	: 139	: 74	: 64	: 46	: 31	: 33	: 22	: 7	: 5	: 26
Variation (1986-1985)	: + 128	: + 118	: - 7	: -	: + 2	: + 17	: - 17	: + 5	: + 5	: - 6	: + 4	: - 1	: + 22	: + 9	: + 8	: - 3

(Source: Centrale des Risques)

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