PN-ABE-793
65482

REPUBLIC OF SENEGAL

AGENCY FOR
INTERNATIONAL
DEVELOPMENT

AGRICULTURAL PRODUCTION SUPPORT PROJECT DESIGN PRIVATE SECTOR STUDY

FINAL REPORT

PRESENTED BY

LOUIS BERGER INTERNATIONAL INC.
100 HALSTED STREET, EAST ORANGE, N.J. U.S.A.
B.P. 3114, 44 RUE JULES FERRY, DAKAR, SENEGAL

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SUMMARY OF RECOMMENDATIONS

1. POTENTIAL FOR PRIVATIZATION

Cereals marketing:

In cereals marketing, the private sector already plays a very important role to supply the urban markets and it contributes to the short-term regulation of supply and demand between the deficit and surplus areas.

The "Commissariat a la Securite Alimentaire" is an appropriate device to ensure long-term (inter-annual) storage and to regulate the fluctuations of prices. Its efficiency can be further increased through the assistance it currently gets from various projects.

The private sector could be encouraged to store local cereals over a longer period than it is doing presently. The objective would be to smooth over, between the harvest and the "hunger season", the volume of trading and consequentely the minimum and maximum prices.

The major constraint is the implementation of an adapted financing mechanism to make longer-term storage an attractive financial proposition to cereals dealers.

Fertilizer distribution:

In fertilizer distribution, the situation is presently difficult. The private sector has not, so far responded positively to the new opportunity offered by the liberalization of input marketing.

The private distribution network in Senegal would be able to distribute fertilizer in a timely and efficient manner and should be encouraged to do so following the disengagement of the parastatals. It possess the necessary organization, coverage and commercial know-how.

The main constraint, however, is the development of the market. Farmers'demand is presently minimal, either because of lack of confidence in the value of the product (technical or financial), or because of lack of the necessary cash to buy it. The development of new consumer credit mechanisms and the design of incentives to the distributors to start offering the product are key to the privatization.

Cereals seed multiplication and distribution:

In cereals seeds production, new private investors, using modern cost-effective farming techniques, could help increase the volume of improved seeds produced in Senegal. However, ISRA and the "Service Semencier" would still have a crucial role to play. Complete privatization is not recommended, nor probably feasible.

The development of the role of the private sector in the production of certified cereals seeds (seeds multiplication) rests on some form of purchasing guarantee, since the market does not yet exist.

In cereals seeds distribution, the public sector will have to keep on assuming an extension role towards farmers to help create a market for improved seeds. Any marketing action of the private sector in cereals seeds distribution will have, for technical reasons, to be supervised and controlled by the "Service Semencier". It appears that this activity could be assumed in a simpler and more effective way through the cooperative movement which probably has the incentive to get involved and should be helped to do so.

The main problem to be solved is the subsidization of the seeds, at least during the first years, to make their use acceptable to the farming community.

2. ORGANIZATIONAL AND POLICY RECOMMENDATIONS

2.1 Maintain and develop CSA's role for interannual storage of cereals

2.2 Authorize, under control, the export of local cereals, in surplus years.

2.3 Maintain the present fertilizer distribution option and do not consider this year's difficulties as the failure of the new policy.

2.4 Pursue the disengagement of the RDAs from commercial activities since it is still incomplete.

2.5 Develop ways to break-down national fertilizer import contracts among several firms to prevent the development of a "de facto" monopoly.

2.6 Gradually disengage the "Service Semencier" from production activities and concentrate its resources and efforts towards monitoring and management.

2.7 Use the cooperative system as the privileged vehicle for seeds distribution.

2.8 Encourage the creation of a professional association of private input supply and distribution operators.

2.9 Organize a systematic coordination mechanism between the Government and the private (including cooperative) actors to discuss input supply problems and actions to be taken.

3. RECOMMENDATIONS FOR FINANCIAL ARRANGEMENTS

3.1 Create a new mechanism to finance the seasonal storage of local cereals by the private wholesalers.

3.2 Set-up, through the commercial banks, a mechanism to help the national importer or manufacturer of fertilizer implement a "cash and return" system.

3.3 Develop a specific lending mechanism, based on fertilizer inventories, to be extended to private distributors of the product, to help them in turn grant credit for fertilizer purchases to the final consumer.

3.4 Create a "drought" insurance system to make extension of credit viable.

3.5 Develop the pilot credit programs conducted by CNCAS towards S.Vs to include fertilizer.

3.6 Organize a revolving fund for financing seed production and storage to be managed by the Seed Service, or preferably by CNCAS.

3.7 Temporarily subsidize seeds to motivate farmers to use improved varities.

All these recommended financial mechanisms or actions might require funding from the international donor agencies as the banking sector does not appear able and willing to finance them on its own funds.

4. RECOMMENDATIONS FOR TECHNICAL ASSISTANCE AND TRAINING

4.1 Provide technical assistance and training, in management, to the "Service Semencier" to help it assume its new functions.

4.2 Provide technical assistance and training in accounting and basic management to cooperative unions to help them assume their seeds distribution functions.

I. INTRODUCTION

USAID wishes to assist the Government of Senegal in implementing its new Agricultural policy, which aims at an expanded role of the private sector in agricultural development.

To this end, USAID is designing the Agricultural Support Project, which will focus on private sector development in:

- fertilizer and cereal seed distribution,

- cereal seed multiplication, and

- cereals marketing.

The objective of this report is to contribute to the design of the Agricultural Support Project by providing a description and assessment of the present and potential private sector participants in the above three areas, in the dryland farming region.

This report provides an overall description of how cereals are presently marketed in Senegal. It focuses on Senegalese traders, existing and evolving cooperative structures, major cereal buyers, as well as public and semi-public companies who play a role in these activities.

Similarly, it provides an overall description of how fertilizer and seeds are presently supplied, and could be supplied in the future through the private sector. This includes a description of the Senegalese traders, existing and evolving cooperatives and large importers and distributors who might play a role in these activities.

To illustrate the various private sector actors, a number of case studies have been conducted in various locations (Dakar and the Peanut Basin). These case studies typify the organization, activities, resources and attitude of private operators at the national, regional and local levels and identify typical constraints and possibilities of the private sector in the fields considered.

For each area considered: cereals marketing, seed multiplication and distribution, and fertilizer distribution, the constraints to the increase, or the involvement, of the private sector operators have been identified and analyzed.

Based on the opportunities and constraints, a number of recommendations in each area have been developed and summarized in terms of Government policies and actions likely to favor the privatization objective, and in terms of Project activities which could support, or play a complementary role, to the former.

II. CEREALS MARKETING

1. GOVERNMENT POLICY AND BACKGROUND

As with other agricultural marketing activities, the Government of Senegal has recently revised its past policy of heavy involvement in marketing of local cereâls, and has clearly moved towards deregulation and free competition among market operators. Once a state monopoly, coarse grain marketing has been progressively opened to selected private operators, then to all officially registered operators and is now, since December 1985, totally free. All past restriction on transport and storage and official price regulations have also been abolished.

The Government of Senegal retains however, some indirect monitoring on prices, mainly through the "Commissariat a la Securite Alimentaire" (CSA), responsible for price stabilization through market interventions. The Government of Senegal also sets the selling price for rice, which indirectly determines market prices for other cereals.
(CSA's role is presented in Appendix 3).

The recently issued "Plan Cerealier", which is the official statement of policy for cereals, supports the liberalization process. It also proposes, as measures to support its cereals policy, to develop storage capacity at the village level, and small scale or industrial processing. Cooperatives are not excluded from the marketing of cereals, but they are put on a free competition basis with other operators.

2. ORGANIZATION AND ACTIVITIES OF PRIVATE OPERATORS

2.1 General market organization

The total quantity of local coarse grain put on the market is estimated to be between 50 000 and 100 000 tons in average years. The available marketable surpluses can vary considerably, however, due to the sensitivity of yields to weather conditions. With the exception of a few years in which the marketable surpluses were particularly important as in 1980/1981 and, to a lesser extent, 1985/1986, the private sector has usually played an overwhelming part in marketing, even at the time when it was officially excluded.

The major marketing flows have their origin in the southern part of the Peanut Basin, where surpluses are concentrated, and are directed towards Dakar, regional urban centers and grain deficit rural areas (mainly Louga and Saint-Louis regions). Local trade is also active between surplus and deficit farms.

Private market operators belong to the traditional type of traders. Many of them are illiterate and speak only Wolof, the local language. They can be broadly classified into two categories: collectors and wholesalers, although this distinction is often blurred.

2.2 Activities of the collectors

The collectors are the primary operators, responsible for assembling grain, the supply of which is scattered among a large number of farmers with very small quantities. Transactions usually are made at the weekly market place.

Among Collectors, one can distinguish :

- local assemblers, who would buy from farmers in very small quantities up to 1 or 2 bags on a market day, and resell at the end of the day to a wholesaler,

- local shopkeepers, who can alternatively be assemblers or retailers depending on the season,

- itinerant traders (bana-bana).

All these operators work on a very short term basis (a day to a week) since they have practically no working capital or are financed by wholesalers, for whom they operate as buying agents. They usually have no transportation equipment or facility besides, in the best of cases, horse-driven carts.

Their annual volume of activity is in the range of 10 tons in average. This volume corresponds to a turnover of hardly half a million FCFA. Since their commission is in the range of 3 to 5 FCFA per kilo purchased, it is clear that they derive only a marginal income from their grain marketing activities. Grain marketing is for them a seasonal activity, subsidiary to their main activity which can be farming or retail marketing for consumer goods.

2.3 Activities of the wholesalers

The wholesaler category covers a broad variety of operators, ranging from the small rural wholesaler operating at the level of a large village with a weekly market, to the urban wholesaler who operates on a regional or national scale.

According to available surveys, the activity of wholesalers ranges from 90 to 140 tons a year, depending on sources. In all cases, local grain marketing is a seasonal activity, which has to be combined with other marketing activities, most often, imported rice or other foodstuff or consumer goods.

The number of wholesalers is estimated at 1500 in the Peanut Basin. Most of them however belong to the category of small rural operators. A large number of wholesalers sell also on a retail basis.

Rural wholesalers would typically handle 100 tons or less of grain per year. They have very limited cash, no transportation, and a small store (usually near the village marketplace) where they also sell consumer goods. They buy grain directly from farmers or through assemblers, within the limits of surrounding villages. They deal either on their own account in order to resell in areas where there is a grain deficit, or on behalf of a bigger urban wholesaler to whom quantities purchased are then shipped.

Regional scale wholesalers would typically handle between 100 and 500 tons a year. All regional centers include such types of wholesalers, the number and size of which depends on the importance of grain production in the region. In Kaolack, center of the main production area, their number is around 20. Such wholesalers often have their own truck, and a storage capacity averaging 100 tons, which exceeds by far their needs for grain. They also deal in rice, which is usually their main activity. The largest wholesalers would also market other products: foodstuff (oil, sugar, wheat flour), cement and other consumer goods. They buy grain in their region, either through collectors or through rural wholesalers, to whom they often advance cash. They sell either on a retail basis in their own town, or ship it to another town with a grain deficit.

National scale wholesalers are based in Dakar, to which they supply grain. Although they may not handle more grain than some regional scale wholesalers, their total turnover is usually much bigger, as they also deal with large quantities of rice, other foodstuffs or consumers goods -which they often directly import- and, in addition, may have other business interests in transportation and real estate.
They usually buy grain from regional wholesalers, and supply the Dakar market and, occasionally, the milling industry.

2.4 Financial organization and strategy of wholesalers

The overall wholesale net margin on grain is between 15 and 20 FCFA per kilo in the Dakar supply network, which includes on the average two wholesale operators. The average margin per wholesaler is therefore in the range of 7 to 10 FCFA per kilo. It is slightly higher than for rice, but lower than for most consumers goods. For an average activity of 150 tons a year, the annual average profit derived from grain marketing would thus be one million FCFA.

Including other marketing activities, the total turnover may vary from 10 to 50 million FCFA a year for typical rural wholesalers, from 50 to 1000 million FCFA for regional scale wholesalers, depending on the level of diversification of their activities, often over a billion for larger wholesalers in Dakar.

As a general rule, financing appears to be the most limiting factor for wholesalers in grain marketing. According to a recent ISRA survey, 72 % of wholesalers have to rely only on their own funds, 18% on informal credit and only 6 % on bank credit. Interest rates on informal credit are very high (with an average of 7.2% per month), but partly justified by high risks of default. In fact, the above percentages apply to the generic category of wholesalers, including a majority of rural wholesalers.

All wholesalers buying rice from CPSP have a bank account. Among regional scale wholesalers, almost all of them have overdraft facilities with commercial banks, the extent of which depends on their reputation and the importance of their personal assets for collateral.

Transport equipment such as trucks are also financed by specialized leasing institutions.

The financing requirements of operators differ according to the category to which they belong. Collectors and to a lesser extent rural wholesalers are, at least partly, financed by advance payment from regional scale wholesalers. The latter ones, in turm, have to finance their suppliers, storage and retailers who often buy from them on a credit basis. The necessary duration of credit is therefore much longer than for other cereals such as rice, which can usually be paid to the supplier on a 30 day-term.

In this regard, overdraft facilities are limited, at least for those wholesalers who are specialized in cereals and who do not have large real estate to provide as collateral. Interest charges on overdraft (1.5% per month or more) are also high for an activity which requires credit on a rather long period. The financial constraint must therefore be analyzed in terms of the cost of credit, and of more profitable alternative uses of limited credit ressources.

The strategy of operators is therefore determined by the following constraints:

- major wholesalers limit their involvement in grain marketing below their marketing capacity, because the return on invested capital is higher in other activities.

- When dealing with grain, wholesalers tend to maximize the inventory turnover. Their strategy is to buy for immediate resale, and to minimize their storage period, which is estimated to be, on the average, less than one month.

3. ACTIVITIES OF COOPERATIVES IN GRAIN MARKETING

The involvement of cooperatives in grain marketing has always remained limited, compared to peanut marketing. This is so because peanuts are easier to handle, the outlet is secured by SONACOS, selling prices are fixed in advance, and storage facilities and financing are supplied through SONACOS.

Two areas of involvement are however, worth noting :

- The official cooperative system, through regional unions and local "Sections Villageoises" has been active in the 1985/1986 campaign for purchasing millet on behalf of C.S.A. The quantity purchased through cooperatives reached 15000 tons, or two third of total quantities purchased by C.S.A. The financing was provided by C.S.A. on funds granted by foreign-funded projects.

The philosophy of such actions is to contribute to stabilize the price of grain paid to the producer, by buying from the farmer whatever quantities are available for sale at the minimum target price of 70 FCFA per kilo. By nature, such operations can take place and are needed only during the good crop years when the private demand is not active enough to absorb the supply. In years of low production, market prices remain above the minimum target price, with some local exceptions and the C.S.A. intervention is not needed on a large scale.

Grains purchased by C.S.A. are put back on the market when supply and demand are back in balance, at a price covering the commission of the cooperatives (3 FCFA/kg) and handling and storage costs over several months. C.S.A. selling price in June 1986 is 95 F.CFA per kilo.

- Several local programs of "cereals banks" have also been initiated by a number of development projects (by SODEFITEX, USAID and other bilateral projects).

The principle of such programs is to pool, at the village level, grain surpluses purchased from farmers immediately after harvest, through formal or informal willage cooperatives. Surpluses are then stored in the village storage facilities until the "hunger period" and can then be resold to farmers, if needed, or put on the market. The benefit of the program is to regulate supply and avoid marketing beyond available surpluses due to the farmers' need of cash. Such actions require however, that credit be available to village cooperatives for grain purchasing, and cannot therefore be extended beyond local, experimental programs, as long as the national agricultural credit system is not operational.

4. EFFICIENCY AND CONSTRAINTS OF THE GRAIN MARKETING SYSTEM

Most studies on the cereal marketing system in Senegal conclude that the private traditional system has proved to be able to fill the gap left by the inoperant parastatal marketing organization which was in the past the sole legal operator.

The liberalization of cereals marketing has allowed large scale operators to openly come back on the cereals market, although their interest is still limited because of financial constraints, high interest charges and more attractive alternative activities.

Restrictive marketing regulation were often noted in the past as constraints to the development of private activities in cereals marketing. Following the market deregulation of December 1985, operators confirm that harassement by the various government control agents, once a substancial constraint in marketing, have considerably lessened.

The price structure indicates that marketing margins by the various operators remain very moderate (between 6 and 9 % for each operator), which implies that the marketing system operates on a competitive basis, and at minimum cost. The system has also proven itself to be able to market the available surplus, and to avoid unsold surpluses at the farmer's level. As a matter of fact, many studies even suggest that grain is often marketed beyond the actual surplus, as farmers are pressed by need of cash while grain is the first harvest available for sale in the seasonal production cycle.

However, the major drawback seen on the market organization is the price fluctuations. There is a seasonal cycle for producers' prices, which are minimum immediately after harvest and increase steadily until the "hunger season" (periode de soudure). In 1984/1985, for instance, which was a year of poor production, prices in the south of the Peanut Basin started near the minimum official price of 60 FCFA per kilo in November 1984, and increased up to 100 FCFA per kilo in June 1985. In 1985/1986, a year of high production, market prices started their cycle well below the new minimum official price of 70 FCFA per kilo (60 FCFA/kg in the south of the Peanut Basin, 50 FCFA/kg in Eastern Senegal) and increased much more showly. This cycle applies to millet,sorghum and maize which have the same price structure on the market.

As the period after harvest is a time of intensive marketing, there is therefore some uncertainty for farmers regarding the price at which they will be able to market their surpluses. The uncertainty is obviously higher in areas of high yields and permanent surplus (south of the Peanut Basin and even more Eastern Senegal) than in areas near self sufficiency where local transactions at the village level amortize market price fluctuations.

This phenomenon is believed to have a disincentive effect on cereal production, especially for farmers growing cereals as cash crops. The magnitude of such a disincentive effect has been discussed in several studies, and seems to be less important than could be expected. No clear relation can be established between market cereal prices and areas grown with cereals, which depend on farmers' choices between peanuts and cereals, based on more complex considerations, such as peanut price or availability of peanut seeds. Uncertainty on prices, however, can clearly affect farmers' interest for intensification through fertilization, as economic returns on fertilizers can be very much reduced in case of a price drop. Given the other present constraints on fertilizers, the negative effect of price uncertainly is probable more a potential effect for the the future than an actual one now.

The causes for such a price cycle, which is common to all Sahelian countries can be summarized as follows :

(1) Millet, which is the main crop, is a cereal with very little international market outside the Sahelian region where climatic conditions are more or less uniform. Production, on the other hand can vary in Senegal from 300 000 to 900 000 tons depending on rainfall. While the average production remains below potential demand, there is clearly an excess of supply over a rather inelastic urban demand in case of good crop. This excess supply can only be absorbed through interannual storage. No operator would spontaneously move to long term storage, which cannot be, under normal market conditions, a profitable operation, whatever the cost of financing. Lack or unsufficient mechanisms for interannual storage account for price drops in case of surplus production.

(2) In average years, the seasonal price cycle is basically due to the intense marketing by farmers in November/December because of immediate need of cash.

Because the operators' strategy is to maximize sales rotation and minimize storage, they only buy quantities which can immediately be resold, and do not fully play the regulating function that one may expect from them.

The cost of storage, on an average 6 month period, can be roughly estimated around 9 FCFA per kilo at current bank overdraft conditions (the financial cost is equal to 1.5% per month, which amounts, for 6 months at 1 FCFA per month, to 6 FCFA, plus losses and storage cost of 0.5 F.CFA per month times 6 months, or 3 FCFA). This cost is substantially lower than the magnitude of seasonal fluctuations, which currently reach 30 FCFA per kilo between December and June. Surveys done on operators' practices suggest that this gap is not due to any speculative attitude by operators inducing artificial shortages, but rather to the fact that the opportunity cost of capital is much higher than bank interest charges, because of restricted availability of bank credit and high cost of informal credit.

(3) The specific problem of Eastern Senegal, where minimum actual prices are usually even lower than in the Peanut Basin, is due to the fact that this region with high potential surpluses is remote from the main consumption market, and is handicapped by a transport cost differential. This handicap is however compensated by the fact that, because of higher yields, cereal growing has probably higher returns than in the Peanut Basin. Finally the Government objectives to have a uniform price throughout the country is probably unnecessary as well as unrealistic in market terms.

5. POSSIBLE IMPROVEMENTS IN THE CEREAL MARKETING ORGANIZATION

5.1 Increased participation of the private sector

Financial constraints of wholesalers, and high opportunity cost of capital can be identified as the major constraint limiting the involvement of the private sector in grain marketing and preventing it to play a regulating function on supply and demand, thus resulting in important price fluctuations, even in years of normal production.

This situation can be improved by increasing the means of intervention of C.S.A. for regulating prices and/or by channelling additional and better adapted credit facilities to the private sector.

The regulating function of C.S.A. will probably remain necessary in the medium term, but can be considerably facilitated, at least for the years of normal or sub-normal production, if the financial constraints of the private sector are alleviated through mechanisms such as described in the following section.

5.1.1 Credit mechanism for the storage of grain

It can be assessed that cereals wholesalers will purchase and store more grain only if additional financial resources are made available to them, at a lesser cost than the current overdraft interest charges.

The main difficulty, however, is to prevent these additional credit facilities from being channelled by wholesalers to activities with a more immediate, or higher, return than grain marketing. This would probably be most often the case unless specific restrictions are designed and implemented.

The interest charged by the banks could, on the other band, be substantially lower if the risk of defaults on such additional credit facilities can be reduced through an appropriate collateral system.

One interesting solution to minimize the risk of misuse, as well as the risk of defaults, would be to set up a mechanism for grain inventory financing with a security on the grain stored. Such a credit could be made available to medium and large-scale wholesalers (and also to cooperatives with a sound financial situation) for periods of up to six months. The condition would be that the grain must be purchased and moved to a warehouse which can be controlled by the bank officers prior to the granting of the credit. The credit would have to be reimbursed once the grain is moved out of the warehouse. The presently under-utilized storage capacity of C.S.A. in all major regional centers could be used as consignment warehouses for such credit.

The credit mechanism could work as follows:

- The wholesaler would purchase some grain at the harvest season through his usual network of collectors, and pay on his own funds, or with funds drawn from his usual overdraft facility. He would then move the grain to a

CSA warehouse in his town and apply for a credit on inventory with his bank.

- Upon delivery, the agent in charge of the CSA warehouse would control the weight and quality of the grain brought by the wholesaler, and issue a certificate of deposit specifying the number of bags, total weight, quality standards, etc. The grain would then be treated against insect attacks by CSA agents (CSA has a skilled team of specialized such agents trained under the GTZ technical assistance program). CSA would take over the responsibility of the conservation in its own warehouse of the grain, according to a standard storage contract. A service fee would be charged to the wholesaler corresponding to the cost of storage and treatment. According to preliminary estimates, the fee could amount to 2 FCFA per kilo for the first three months, and 0,3 FCFA per kilo for each additional month. For a period of six months, the total fee would thus amount to less than 3 FCFA per kilo, and could remain below the actual storage cost by the wholesalers themselves, due to economies of scale by the CSA.

- Upon remittance of the deposit certificate with the bank, the wholesaler would be granted a credit amounting, for instance, to a maximum of 80 % of the official purchase price for the grain stored (i.e. 70 FCFA per kilo * 80 % = 56 FCFA per kilo). Thebank would immediately advise CSA that a credit has been granted. The credit would have to be reimbursed before the following harvest season, with therefore a maximum duration of approximately nine months. It becomes immediately repayable however, when the wholesaler decides to sell his stored grain.

- When the trader decides to offer his grain on the market, he has to reimburse the credit to the bank. The bank would then give him back the deposit certificate, with a clearance to move the grain, which entitles him to withdraw a specified quantity from the CSA warehouse. Alternatively, a system could be devised to allow the merchant to reimburse the bank with the actual proceeds of the sale of the stored grain. In that case the wholesaler should be allowed to withdraw, without clearance from the bank, 20 % of his inventory. CSA would then advise the bank, and a delay of two weeks would be given to the trader to pay the bank credit back, for the amount withdrawn. Upon payment, the bank would issue a clearance to allow the merchant to withdraw an additional 20 %, and so on until the whole credit is repaid.

- In case of default within the legal delay, the bank would be entitled to seize the remaining inventory of grain, and ask CSA to sell it on its behalf.

- As long as the grain remain in the warehouse, CSA would have the legal custody for the stored grain, and would be responsible to the bank in case of illegal withdrawal. The storage fee paid by the merchant to CSA would also cover this responsibility.

Such a mechanism would give to the bank a good control over the inventory, and does not imply too heavy a workload either for the bank or for CSA. Ideally, consignments warehouses could be operated by CSA in all major towns located in the cereals surpluses areas. In most of these locations, CSA already operates storage facilities, which are presently used below capacity. A pilot project for such a scheme could be implemented and tested in Kaolack at first.

The commercial banks might be interested in participating in such a grain storage credit program. SONAGA, a financial institution specialized in medium-term leasing credit for equipment, might also be considered as a potential participant, since it already has a wide experience of credit to traders. The need for additional financial resources to participant banks will have to be appreciated in view of the result of the banking sector study presently conducted. In case additional financial resources would be needed, they could be provided through a specific credit line which might be considered by USAID as a component of the Agricultural Support Project. The line of credit would thus be used to refinance the banks participating in this special grain storage credit program.

In order to remain motivating, the cost of credit should not exceed 12 % per annum, compared to the present 18 % cost of overdraft facilities.

Given the low risk of the proposed credit, based on the grain inventory as collateral, one can expect that such a rate could be applied on standard bank financing conditions and would not require subsidization.

5.1.2 Other measures to increase participation of the private sector

Another useful measure to increase the interest of wholesalers for grain marketing would be to allow, under certain conditions, the export of grain by private operators (which remain forbidden under the existing regulation). Export licenses for limited quota could be granted to large-scale wholesalers, when the first production estimates (usually available in September/October) show a probable surplus of production.

Finally another measure which would increase the private sector interest and more generally secure grain marketing, would be to limit to the minimum the free distribution of food aid, which perturbs the market when done on a large scale as experienced in 1983/1984.

5.2 Interannual storage and regulation

Increased participation of private operators will not be sufficient to absorb the potential surpluses in years of high production, as storage of grain over a year period is usually a cost generating operation.

Under the present system, this interannual regulation fucntion is assumed by C.S.A., which seems to have been operating rather efficiently in 1986. An alternative solution would be to set up a specific financing and subsidy mechanism for the private sector in order to motivate it to take over long-term storage in case of excess supply. No clear advantage (except the encouragement given to the private operators) can however be seen in such a policy, and it is probably more advisable to strengthen C.S.A.'s capacity.

Finally, grain storage at the producer's level, through "cereal banks" mechanisms should also be developped, as it it an efficient way to regulate the supply and demand of grain on the market.

III. FERTILIZER DISTRIBUTION

1. EVOLUTION OF THE FERTILIZER DISTRIBUTION ORGANIZATION AND POLICY

1.1 Evolution of the fertilizer distribution system

From 1960 to present, the organization of the distribution of fertilizer to the Senegalese farmer in the peanut basin has been changed a number of times.

From 1960 to 1980, fertilizer was an integral part of the agriculture production program ("Programme Agricole") managed by ONCAD, a parastatal. The price to farmer was extremely low and the product was distributed at credit. The repayment of the credit was supposed to occur at harvest time by automatic levying on the value of the cash crops sold by the farmer. The agriculture production program was cancelled in 1980, and ONCAD, bankrupted, was abolished.

In 1981/1982 a "retained earning" scheme on the sale of peanuts by the farmers was supposed to finance the purchase and distribution of fertilizer during the following cropping season. In fact, the Government assumed the whole cost of the fertilizer distribution program since the controled sale of peanut happened to be too small to make the system work.

In August 1983, the International Monetary Fund prompts the Senegalese Government to stop its subsidization program for fertilizer.

In 1984/1985, the distribution is financed, on the proceeds of a levy of 5 FCFA per kilo of peanut sold by the fyarmers. In addition, 12000 tons of urea are purchased in the US through the USAID's "fertilizer import program". USAID uses the proceeds of this imported fertilizer sales to give a 20 FCFA per kilo subsidy. The fertilizer is then distributed to the farmers, at a subsidized price, by the various Regional Development Agencies and by SONAR.

For the cropping season 1985/1986, the fertilizer is purchased by the farmers through the "retained earnings" scheme of the preceding harvest. SONAR having been abolished, the distributions it used to assume are realised by the cooperative movement. USAID offers a subsidy of 20 FCFA per kilo for the sale at credit (8000 tons) through the Regional Development Agencies (SAED/SOMIVAC) and of 40 FCFA per kilo for cash sales (1000 tons).

For the 1986/1987 season, following the orientation of the "New Agricultural Policy", it is decided that the distribution of fertilizer will be liberalized. The private sector operators, the cooperatives and the RDAs are authorized to compete to sell to the farmers the new binary formula (0-15-20) produced by the "Industries Chimiques du Senegal" and the imported urea . USAID still offer a subsidy, but for cash sales only.

A few RDAs still provide the farmers with fertilizer at low prices, and at credit through their own or specific projects' financing. This is the case, for instance, with SODEFITEX for cotton, and with a few corn growing projects.

In the past twenty years, the fertilizer distribution system has changed at least four times and fertilizer consumption, which was at an all time high at the end of the seventies decreased dramatically in the rain-fed peanut and cereal regions to reach the low level of less than 20,000 tons in 1984/1985.

Although the system has changed dramatically with the dissolution of ONCAD in 1980/1981 and SONAR in 1983/1984, the changes in policy and organization have been, until recently, based on common characteristics.

These characteristics are:

(1) The different fertilizer distribution programs focused almost exclusively on cash crops, nothing being specifically organized for food crops, especially local cereals.

(2) The public sector, through various government agencies [illegible] parastatals had a complete monopoly over fertilizer distribution in the Peanut Basin. The private sector had no role to play, except to import for the government.

(3) The key elements of the different systems are:

-a heavy subsidization of the product and,

-a distribution at credit to farmers.

With the publication of the "New Agricultural Policy" by the Government of Senegal, the operating environment is changing dramatically. The objective of this chapter is to assess the degree of readiness of the supply and demand actors to respond favorably and efficiently to these new opportunities (for the private sector) or constraints (for the farmers).

1.2 Objectives of the "New Agricultural Policy"

The "New Agricultural Policy" adopted officially by the Government of Senegal in 1984 brings tremendous changes compared to the policy of the past twenty years.

a) The Government proclaims its willingness to withdraw from all activities which can be efficiently assumed by the private sector. The agricultural input supply and distribution are included in those activities.

b) The RDAs will progressively reduce their activities and in particular, disengage from activities which can be assumed by the private commercial sector.

c) The subsidies on agricultural inputs are to be cancelled, unless the donor agencies are willing to assume the cost of such programs.

d) A rural credit bank, the "Caisse Nationale du Credit Agricole du Senegal" (CNCAS) is to be organized to provide credit to the farmers.

e) Finally, it is expected that a strengthening of producers' organizations will allow them to replace the RDAs, and compete with the private sector, in input supply activities such as purchasing, storage and distribution.

2. PRESENT AND POTENTIAL ACTORS IN THE FERTILIZER DISTRIBUTION SYSTEM

Starting in 1986, the public sector and parastatals no longer have the monopoly of fertilizer distribution in the Peanut Basin. Although it is likely that they will still play a role, the objective of the "New Agricultural Policy" is to encourage the private sector, and the producers' organizations, to serve this market.

2.1 The private sector

At present, the private sector's role in cereal and peanut fertilizer supplying is limited to the production, or import of the product.

The existing commercial distribution network, which is extensive and well organized in Senegal, does not yet play a role in the distribution of cereal and peanut fertilizers to the final consumer.

Although it has the potential to play a major role, the private sector has not yet responded positively to the environmental and reglementary changes. Before we examine the reasons, we will describe the various actors in the commercial network who could, potentially, play a role to supply the farmers with fertilizers.

The private distribution network is organized in Senegal around four major categories of actors : the national importer/distributor, the regional wholesaler, the local wholesaler/retailer and the small village merchant. These private economic operators form a tightly knit, and efficient network, throughout the country, from the production/import of goods to its distribution to the final consumer. The network which serves the smallest, most dispersed consumer, form a chain whose links are made of supply and credit interrelationships.

2.1.1 The national importer/distributor

The national importer/distributor is located in Dakar and can be either the subsidiary of a foreign company, or a local firm.

The local firm, in turn, may or may not have exclusive distribution rights on the Senegalese market for foreign goods.

These companies might have their own sales force to serve the market around Dakar but usually work through agents or wholesalers in the regions. We have not found any instance of a vertically integrated distribution network which would, under the same company, import or produce and operate the smallest village stores.

Although no statistics are kept or published by trade, we estimate that there are approximately twenty such companies in Dakar with experience in some form of agricultural inputs (fertilizer, chemicals, machinery). The companies interviewed in this category indicated an annual turnover of between 300-400 million and 5 billion FCFA, or between $ 1.2 million and $ 15 million.

Most of these companies do not deal exclusively in agricultural input but import and distribute a whole range of products and usually have their own extensive storage facilities.

They regularly work with banks. In most cases, financing is not a problem, although most complain about the heavy guarantees required by the bankers.

The national importer/distributors are the only private operators who, at present, play a role in fertilizer supply through imports under government bids (they also might distribute fertilizer for market gardening).

2.1.2 The regional wholesaler

Each major city in Senegal has a number of regional wholesalers.
Usually these wholesalers operate individually-owned companies, even if some of them can be very large. In the city of Kaolack, for instance, between ten and fifteen such companies exist.
The regional wholesalers interviewed in different locations indicated annual turnover of between 250 million and 3 billion FCFA, or $ 750,000 and $ 9 million.

These regional wholesalers deal primarily in basic food products, building material, fabrics, clothing and miscellaneous consumer goods. A number would also trade in local cereals to serve the local urban market or other grain deficit regions.

They usually get supplied directly from the national producer or manufacturers, or from the importer in Dakar. They, in turn, supply a number of local wholesaler/retailers in their region. The warehousing capacity is usually quite important (200 to 300 tons for the wholesalers we sampled).

They might have their own truck fleet, or contract it to private carriers.

Their inventory turnover is generally very high and most of the sales are done on a cash basis. When they extend credit, it is seldom for more than 50% of their clients' order.

Most are limiting their dealings with the banks, either because they are not willing, or able, to increase the level of personal guarantees required to get a loan, or because their own cash-flow does not make it necessary.

They are usually organized as individually-owned businesses and the owner works with members of his family and a small number of unskilled workers.

A good number do not have any formal accounting or management training and might not be able to read and write French. This does not prevent them, however, to be, for the most part, very shrewd and knowledgeable dealers.

2.1.3 The local wholesaler/retailer

The local wholseoler/retailer is located in all the larger villages and small towns ("Communautes Rurales" for instance).

He operates a store and supplies the smaller village storekeepers and the itinerant merchants going from weekly market to weekly market.

Usually, the wholesale part of his activity represents 70% of his sales.

The store is generally family operated with little or no ouside employees.

He would get his supplies from the regional wholesaler and, in some instances, directly from the national producer.

He is not specialized and offers a whole range of products from basic food products to building materials, fabrics and clothing, household appliances, tools, automative parts, etc...

His storage capacity is usually important (our sample indicated a figure in the 10 to 60 tons range).

He generally organizes the transport of his goods through a private carrier.

Although he might also farm some land with the help of members of his immediate family not employed in the store, trading is considered his main activity and represents his major source of income.

He usually extends credit to his wholesale clients in the form of payment facilities, between two reorders, for 30 to 50 % of the value of the order.

He has been in business for a number of years and is generally a notable in the village.

His influence covers a radius of approximately twenty kilometers in the densely populated area of the Peanut Basin and he supplies regularly between ten and twenty five smaller storekeepers or market dealers.

He usually has a bank account since this is a legal requirement to get a wholesaler's license but does not borrow much from banks, by choice, or because his size and limited personal assets to be used as collateral does not make him attractive to bankers.

In most cases, he did not receive any formal higher education and will speak only the local language.

The local trader interviewed indicated annual sales of between 50 to 250 million a year, or $ 150,000 to $800,000.

2.1.4 The village storekeeper and the itinerant merchant

At the last level in the distribution chain, before the final consumer, we find two different categories of merchants: the village storekeeper and the itinerant merchant.

The itinerant merchant does not have a fixed building but goes from weekly market to weekly market to sell a small assortment of goods. He might travel with his own second-hand pick-up truck, or he uses the country taxis which serve the village markets. He gets his supplies, usually clothing and small household appliances, from the regional or local wholesaler.

When Senegalese, the village storekeeper is usually a retired employee or civil servant and, in some cases, a local farmer or craftsman, who happens to have a very small store operated on the side, either by himself at his spare time or by one member of his family. This commercial business supplies an additional income but does not constitute his main activity or source of revenue.

In most instances, however, the village storekeeper is a Mauritanian who operates a store full-time for a few years before going back to his country. In this case, the commercial activity is the primary source of revenue and the store is usually bigger and better supplied.

The range of products offered is normally very limited in volume, but can be extremely diversified. The store is usually located in the family house and the storage capacity is not large (around 3 tons in our sample).

This storekeeper gets his supplies from the local wholesaler, every fortnight, or month, and usually he gets a credit for part of his order. He himself extends some credit to his clients the farmers. His cash-flow and his income are very limited and he cannot extend much credit. In most cases, he will not work with a bank nor even have a bank account.

According to a survey done in the Kaolack and Fatick region, the annual turnover can be as low as 1 million F.CFA and rise to is 7 or 8 millions in some cases, or \$3,000 to \$25,000 approximately.

A high proportion of these merchants are illiterate, or literate only in local language. Almost none is likely to be formally trained.

N.B: The first three categories of private businesses are illustrated in the cases studies presented in Appendix 1.

2.2 The cooperatives

Approximately 4,500 "Sections Villageoises" (S.Vs), 340 cooperatives, 90 local unions, 30 departemental unions and 10 regional unions have been created in Senegal.

This pyramidal structure is however more theoretical than real and must of the components exist only on paper with the exception of a few pilot programs.

Cooperatives and "Sections Villageoises" are active only in some areas as buying agents for peanuts on behalf of SONACOS, and have no more role in input and credit distribution, as previous programs, have been disrupted and in a number of cases have gone bankrupt.

This year, however, UNCA has purchased fertilizer from SENCHIM to sell it for cash in the S.Vs. According to our information an extremely limited quantity has been sold so far.

In addition to the official cooperative structure, regional development corporations have created their own farmers' group system, in order to channel inputs to farmers. They are called "Groupements de productions" in the area serviced by SAED, and "Association de producteurs de base" in areas serviced by SODEFITEX.

N.B: The case study in Appendix 2 present a typical "section villageoise" in the Peanut Basin.

2.3 The parastatals

Since the disengagement policy of the Government, only two parastatals are still playing, or could possibly play, a role in input distribution in the Peanut Basin.

2.3.1 SONACOS:

SONACOS is one of the two peanut oil processors in Senegal, with 75% of total oil production.

SONACOS is a mixed-economy corporation, with 65 % of the capital held by the Government of Senegal.

Following the dissolution of SONAR, SONACOS took over the marketing of peanut seeds.

In 1986, SONACOS also bought some 7,500 tons of fertilizer from SENCHIM to sell for cash in the Peanut Basin under the USAID subsidy program. A very limited quantity has in effect been sold (an average of 400 kilos out of a stock of 30 tons in the seccos we visited)and SONACOS does not insist on being further involved in such an activity, as other operators can move on the market.

2.3.2 SONADIS:

SONADIS is a mixed-economy corporation with a commercial status whose capital belongs to the Government of Senegal (90 %) and local banks (10 %). It was established in 1965 in order to "distribute basic consumer goods in urban and rural areas".

With a turnover in excess of 20 billion FCFA, it ranks as the first distributor in Senegal. It operates wholesale outlets in the major cities of Senegal (2/3 of its turnover), and 127 retail outlets in urban and rural areas.

SONADIS is not very active in the marketing of cereals, except for rice and limited quantities of imported sorghum during the "hunger" season. It would be willing to market fertilizers if available on a cash and return basis. Later, if a cash market for fertilizer is proven to exist, it would be interested to add this item to its product range.

N.B: Details on those two parastatals are provided in Appendix 3.

3. CONSTRAINTS TO PRIVATE SECTOR INVOLVEMENT IN FERTILIZER DISTRIBUTION

The business opportunity opened by the "New Agricultural Policy" has not, so far, been responded to by the private merchants and very little, if any, fertilizer is presently being marketed by the existing private distribution network.

Interviews were conducted with a sample of businessmen at the national importer/distributor, the regional wholesaler and the local wholesaler/retailer levels in the two major regions of the dryland farming area (Sine-Saloum and Eastern Senegal) to understand the actual or perceived constraints which could explain the present situation.

Three major factors seem to play a crucial role in the lack of positive response by the private sector actors. These are:

- their perception of the existing market,

- the lack of confidence in the stability of the privatization policy and,

- the risk and opportunity cost of the necessary credit.

3.1 Perception of the market

The Senegalese farmer in the rain-fed cropping areas has experienced, between 1982 and 1984, a series of bad crops and consequently his disposable income, already low in the best years, has been further reduced. The merchants interviewed at the regional and local levels all complained of a serious decrease in their turnover in the past four years. Although the last cropping season was normal, the accumulated debt and the disinvestment (sale of cattle) has not yet been corrected.

The farmer has always had to make difficult choices on the use of his limited resources and, this year, he experiences two entirely new constraints, the purchase, for cash, of his agricultural inputs: seeds and fertilizer.

The merchants are convinced that purchasing fertilizer is not considered a priority for most of the farmers and that they will rather spend what little cash they have available, or can get from the sale of animals, for other purposes. This is explained by the fact that, in the dryland farming area, a number of farmers are not convinced that fertilizer is a sound economic proposition when the rains are as unpredictable as they have been for the past years. Since they would have to buy the product at a time when their cash availability is at a very low level, they would rather use it for other, absolutely necessary or perceived as more profitable or less risky, purposes. The priorities seem to be: (i) basic family needs, (ii) seed purchases, (iii) repayment of debts accumulated with merchants or relatives over the past years, (iv) investment in livestock and, finally, (v) fertilizers.

In addition to this factor, the farmer has been used to receiving his inputs either free of charge, or at credit, from the government or the RDAs, and this year's fertilizer type (0-15-20) is a new one. To have to buy a new product, and for cash, represents a radical change which, since the rural population is rather conservative, might take some time to get used to.

The merchants do not believe the market is ready to respond favorably, this year, to these changes. Since most are risk-averters, they are not yet ready to serve it.

3.2 Confidence in the stability of the new policy

To serve a market which is already considered as risky, the merchants need to have confidence in the stability of the new opportunity. None of them is prepared to invest his funds in the purchase, transportation and storage of fertilizers if they are afraid that the conditions will change. There is a general tendency among a great majority of the people who were contacted during the course of this study, in the private and public sectors alike, to think that the government will step back into the market at the last minute. Reasons for this vary from strong pressures by powerful lobbies to lack of response by the private sector which might endanger the harvest.

For most merchants, this year's happenings will be seen as a test of the determination of the government to really implement the new policy. If no last minute decision to distribute fertilizers through the Ministry of Rural Development or the RDAs is taken, chances are that the private sector will reconsider its present "wait and see" attitude for next year.

Unfortunately, for this year, no private distributor wants to invest in fertilizer to risk having to keep it in his inventory because he would have been undercut by the traditional public sector distributors.

3.3 The perception of risk

The private sector operators in Senegal seem generally to be more risk-shy than profit-motivated individuals. In the conscious or unconscious balance every economic operator maintains between his desire to make a profit and his fear of the risk. The Senegalese merchant, according to our survey seems to put far more emphasis on the risk then on the potential gains. He is generally prepared to be satisfied with a very small profit to reduce his exposure to risk.

In the distribution of fertilizer, this attitude plays an important role. The profit margin offered on the product was considered high enough to attract the businessmen to enter this new market. This high profit margin (approximately three times the margin on a very important commercial product like cement) is to be had if the product is bought for cash. This means, for the merchant, taking an important financial risk in the tying-up of funds in a product which he is not sure will sell.

According to our survey the proposition should have been reversed to be attractive to most distributors. They would consider much more favorably a "cash and return" solution where they would assume no financial risk on the product's purchase and inventory, even at the cost of a reduced profit margin.

3.4 Financial constraints

In addition to their skepticism about the size and interest of the market, some merchants, most likely at the local level, might be hampered by their own limited financial resources:
Adding fertilizer to their line of products would represent an additional investment in purchase, transport and storage. In a number of cases at this level of operators, the available cash, or credit, is already entirely absorbed by the present business. They would, then, have to increase their financial resources to purchase fertilizer in large quantities.
In most cases, they already received all the credit that the banks are prepared to give them with the security and guarantees they can offer in return. Those who probably could get more from the banks, generally do not want to ask for it. They want to maintain a limited exposure.

This situation may very well slow down the growth of a number of commercial businesses in Senegal. On the one hand, most merchants do not have much to offer the banks in terms of guarantees for the loans, on the other, those who would be acceptable to the risk-shy bankers think that the guarantees demanded are disproportionate and that the credit is too expensive. The reluctance to disclose any information about the financial aspects of the business, or about one's personal assets, probably make the bankers miss a number of sound and profitable opportunities.

Changing the lending conditions (guarantees and cost), might open the credit market to a whole new category of entrepreneurs, and increase the resources available to the private sector to seize new commercial opportunities.

However, it is not by any means sure the new resources would be used for developing the fertilizer distribution network or the fertilizer market since other products, or ventures might have a higher profit potential.

3.5 Need for rural credit

The market for fertilizers might be somewhat different, according to our survey, in the regions where the climatic risk is higher (the heart of the dryland farming area) and those where the rains are both more abundant and more likely to fall.

In the first region, where fertilizer is seen as a risky economic proposition, and their income is low, the farmers will probably not buy it for cash, if at all. The distribution in any meaningful quantity will require, as a preliminary condition, the extension of credit. This credit will have to be granted for the period of roughly 8 months, between the start of the production season and harvest time. The private merchants probably already extend as much credit as they are willing to, with the guarantees that their clients in the rural population can offer in return. It is highly questionable that additional financial resources would automatically mean that more credit is available to the final consumer. The exposure is probably the determinant factor.

In the other regions, the merchants think that the market for fertilizer is more assured since the farmers usually know of its profitability. Some even think that cash sales might work if no other alternative is offered the farmers, since a number of them can mobilize the financial resources to buy it, for instance by selling livestock. In the first years, however, credit will probably be required because the farmers are not yet used to buying their inputs for cash and will give priority to seed purchases.

The first region, where fertilizer will have to be offered at credit, is also the region where the merchants are the less ready to extend it, since most think the risk of default is very high, or because they have already granted as much as they were prepared to give. The implementation of a rural credit bank might offer the only viable alternative.

As regards the Cooperatives, they have a somewhat mixed past record in the field of credit organization and collection and do not seem ready to embark again in large credit delivery programs.

In the other regions, the private sector operators might be willing to increase their own credit mechanism to include sales of fertilizers, if additional, and interesting, financial resources are made available to them for that purpose.

4. RECOMMENDATIONS

4.1 Actions in the short-term

It seems that very little fertilizer can be sold on a cash basis for the time being in the dryland farming areas. The farmer is not yet used to having to plan for fertilizer purchases in July/August and he is spending what little cash he saved from harvest on his first priority: seeds.

A limited demand for urea, which is a well-known product, was apparentely developing at the end of the study. Private distributors purchasing limited quantities were probably thinking that farmers in the irrigated regions and a number of relatively modern and wealthy farmers in the Peanut Basin (probably those with an additional source of income in addition to agriculture) were probably going to decide to buy it for cash if no other possibility existed.

In the very short-term, the availability of the fertilizer at SENCHIM's should be more widely publicized through the Cooperative organization, the government officials in the country and among the merchant community Indeed, the research showed that a number of merchants still did not know that they could sell fertilizer, had no idea of the potentially interesting profit margin offered, and of the place where they could get the product. It is to be hoped that, with a better information campaign, some merchants in the regions where fertilizer is known to the farmers to be profitable, will finally decide to purchase the product in some quantity and offer it for sale in their stores. The national distributor should be prepared to respond favorably to any request for fertilizer, even in very small amounts, if the client is willing to pay for cash, or if Senchim thinks it can trust the client with a credit.
The season is already too far advanced to start elaborating new and complex financial and distribution schemes.

In any case, the prerequisite of the success of the privatization of the input distribution policy is to avoid last minute changes on the part of the government, whatever the pressures which might be brought to bear. It should be prepared to assume this year's difficulties and possible failure to give its policy a chance in the future.

The disengagement of the RDAs from input distribution in all the regions, and especially in the regions where fertilizer is widely accepted by the farmers as profitable, would also help convince the private sector to enter the market. Some private operators already have plans to serve the irrigated regions, but will probably wait to implement them until they are sure they will not be undercut by the RDAs any more.

4.2 Increased competition for the national import contracts

The size of the annual national import bids prevents a number of private importer/distributors, who have the know-how, to operate at this level. They might find the financial resources to deal in smaller quantities (2,000 to 4,000 tons) but they are unwilling, or unable, to make any committment for 10,000 to 15,000 tons. It could be worthwile, to encourage smaller companies, and to prevent the "de facto" monopoly of big importers (like Senchim or SSFPC) to design some wey of sharing the national contract for the import of fertilizer between three or four companies of repute. The proposals could, for instance include a price for the import of the total amount and a price for a smaller quantity. If the price differential was not too high, the decision could be taken to split the market between a few companies. They would, for instance, be given a chance to get part of the total contract at the conditions submitted by the lowest bidder.

4.3 Implementation and financing of a "cash and return" mechanism

The main problem to solve for the future, though, is the private sector's perception of the risk and opportunity cost of the fertilizer distribution scheme. The implementation of a "cash and return" organization seems to be the most acceptable solution in the eyes of the merchants to minimize their reluctance to enter this new market (the distributors would get the product from the importer/manufacturer on a deposit basis and they would pay him for the product sold only). This approach will probably prove necessary until the market, on a cash or credit basis, is proven to exist.

Our recommendation is to design a five-year program which would be gradually phased-out. The actors in the distribution system would be, every year, required to increase their contribution by purchasing the fertilizer for cash, or through normal commercial credit practices. At the end of the period, no fertilizer should be distributed at the wholesaler or retailer's levels on a "cash and return" basis any more. The merchants would have to fully assume their responsibility since, hopefully, the market would have been proven viable.

Since the national importer/manufacturer would bear the cost of the system, a special financing will have to be designed with the commercial banks and USAID.

The national importer/manufacturer would have to select the wholesalers and retailers where he would be prepared to deposit his product. He would also have to organize some kind of physical control procedure to make sure he is paid for all the product which is sold. Taking into account the facts that the distributor has to be of a respectable size, yet close enough to the final consumer, we would think that the local wholesaler/retailer is the logical choice.

The distributors who would receive the product would have to be prepared to assume the transport cost to the final consumer and the cost of losses or waste.

The margin of 7,000 FCFA per ton would have to be shared between the national importer/manufacturer and the other actors in the distribution system. A margin of 5,000 FCFA to the wholesaler/retailer would still make the product attractive, compared to cement for instance, and the remaining 2,000 FCFA per ton would finance an average of two to three months'worth of inventory for the national importer/manufacturer.
(This margin is calculated at a financing cost of approximately 1.5% per month, or 0.90 FCFA per kilo and per month)

4.4 Design of an incentive mechanism to encourage private credit distribution for fertilizer purchases

At least for a few more years, it appears that some kind of credit mechanism is necessary in the dryland farming areas to sell a new type of fertilizer in the quantities expected.

The private sector distributors have already demonstrated that they are in a good position to evaluate their clients'solvency and thus to operate efficiently a widespread credit system to final consumers. However, they will do so for agricultural inputs, only if they believe the market is profitable, and the risks are acceptable.

However, some of them would have to have access to additional and adapted financial resources (8 months rather than the usual short-term overdraft facility and attractive rate).

In turn, the lender would have to design a linkage to ensure that the special agricultural input credit facilities is not used by the private merchants for other purposes than to promote fertilizer sales.

The credit should be given by the commercial banks to the private distributors of agricultural inputs.

Since it is likely that the guarantees acceptable to the bankers have already been offered by the distributors to get the credit they presently use, some incentive will have to be designed to encourage them to relax their standard lending conditions. A risk sharing mechanism could be negotiated, for instance, between the commercial banks, the Central Bank and USAID.

Studies presently being conducted should indicate if new funds are required for this purpose and the minimum guarantees which would be acceptable for the banks.

This credit mechanism to distributors should however be reserved to private merchants in regions where the climatic risks are low, i.e. the irrigated regions, Eastern Senegal and the Casamance.

In other zones, where the risk of poor crops is higher but still acceptable and where fertilizer has been proved without doubt to be an economically sound investment, i.e. the south of the dryland farming area, a "disaster" insurance scheme should be organized to give credit a chance to exist on a viable basis. However this constitutes a long-term proposition which requires further studies.

In all other areas, no credit for fertilizer should be granted since, on the long term, its use is not economically profitable, and even technically questionable.

The sale-for-cash condition for the subsidy might also be reconsidered to encourage the private sector operators to extend credit to farmers.

4:5 Support of a fertilizer credit project through CNCAS

In parallel to the development of a credit mechanism through the fertilizer distributors of the private sector, all possible support should be granted to the development of an efficient rural credit bank and the tests being presently conducted by CNCAS on seed credit should be examined very closely. The possibility of implementing a similar scheme for fertilizer credit in another test-site should be studied.

4.6 Possible role of the Cooperatives

As regards the cooperative system, it should be given the opportunity to participate in the "cash and return" distribution scheme at conditions similar to the private sector, but past experience does not favor encouraging them to offer credit. The cooperatives'members should get credit, either through the private sector or through the CNCAS. It is not desirable that the unions, at least for the time being, develop their own credit mechanisms. Their financial structure, and their organizational resources, are still too fragile for such risks.

4.7 Role of SONADIS

Although not strictly speaking a private sector operator, SONADIS, which is the largest distributor in Senegal and is very well represented in all the rural regions, should be encouraged to participate in the new fertilizer distribution mechanism. It should benefit from the same opportunity of a "cash and return" distribution contract recommended for the private operators and could possibly be eligible for the special fertilizer distribution credit if, in turn, it would use it to extend agricultural input credit to its clients in the rural regions.

The competition offered by SONADIS could help prevent, in the future, the establishment of fertilizer distribution monopolies in the regions.

IV. CEREALS SEEDS PRODUCTION AND DISTRIBUTION

1. GOVERNMENT OBJECTIVES AND BACKGROUND

The Government of Senegal's efforts to develop a seed policy has always been primarly directed to peanut seeds, and little concern has been given up to now to cereals seeds, although it is recognized as the most cost-effective factor to increase yields.

Until the implementation of the "New Agricultural Policy", breeder and foundation seeds production was the responsibility of ISRA, while RDAs were in charge of multiplication and distribution, under the overall control of the Seeds Service (S.S.) from the Ministry of Rural Development. Very small quantities of certified seeds has thus been produced and distributed because of the various constraints at all levels :(i) inability of ISRA to produce foundation seeds,(ii) very high cost of multiplication and subsequent financial contraints, and (iii) inefficiency in the distribution systems.

At present, only limited and local cereals seeds programs are operating :

- SODEVA is marketing a few tons of Souna III improved millet seeds at a price of 265 F.CFA/kg, but sales remain below expectations.

- SAED and SODEFITEX are also operating some cereal seeds distribution programs in their areas, through informal farmers groups which they have created. These programs are parts of regional development projects internationally funded.

The NPA and the recently issued "Plan Cerealier" have given only broad guidelines on Government's objectives and strategy for cereals, as more emphasis is put on peanut seeds. The definition of a detailed strategy is however still pending, until the presently ongoing study on seeds policy is completed.

According to the "New Agricultural Policy" and the "Plan Cerealier", the Seeds Service would take the responsibility of foundation and certified seeds production, as RDAs are phesed out. It would contract with private producers under close monitoring.

Distribution of certified seeds should be gradually left to the private sector, with a close control from the Seeds Service on varieties to be distributed in each area. ISRA would retain the responsibility of breeder seeds production, although the possibility of alternative foreign or local suppliers is not expressly excluded.

The need for a subsidized selling price to farmers is generally recognized at least for a transition period, given the present lack of awareness of farmers concerning expected yield increases.

The Government objective for the year 2000 is to make available 5,000 tons of cereals certified seeds of improved and tested varieties .

2. POSSIBLE INVOLVEMENT OF THE PRIVATE SECTOR AND CONSTRAINTS

2.1 Potential role of private operators

At present the only field of actual involvement of the private sector in seeds operation is the import, production and distribution of vegetable seeds. A cooperative specialized in vegetable gardening is locally producing vegetable seeds and a few private operators have also recently started production. Vegetable seeds are also imported by most national importers/distributors specialized in pesticides, and are distributed locally through specialized retail outlets, either agents or branches of the importers. Such activity is however very specific, as the market for vegetable seeds is geographically concentrated in the Niayes area, and does not raise any problem of subsidies or credit given the high return of vegetable gardening.

For cereals seeds, the present private sector involvement is nil, although some private projects are being studied. Possible and recommandable involvement of the private sector has to be analyzed at each of the various stages of breeder and foundation seeds production, seeds multiplication, seeds distribution.

2.1.1 Present and potential actors in cereal seed production

Production of foundation seeds is currently the responsibility of the Seeds Service, which has three seed farms. Production on those farms is contracted to individual small farmers, supplied with inputs on a credit basis by the Seeds Service, which also provides technical supervision and monitoring, and purchases the production. This system is believed to be costly, although no accurate cost estimate is available. It also implies a very heavy involvement of the Seeds Service in production activities, which are not compatible, under sound management principles, with its overall monitoring function.

Seeds multiplication is currently managed by the RDA's under various development projects (GTZ in Sine Saloum, World Bank project in SODEFITEX area, etc...), with an overall monitoring by the Seeds Service. The RDAs contract production with individual farmers or farmers' groups specialized in seed multiplication. They then provide them with technical assistance and inputs on a credit basis; purchase the produced seeds and send them to one of the two existing treatment centers, operated by the Seeds Service, for quality control, treatment and packaging. This system presents the same drawbacks as already stated for production of foundation seeds. It implies a heavy involvement of the RDAs (for multiplication) and of the Seeds Service (for the treatment and packaging) in production activities which could be handled in a probably more cost effective way by private operators. Because of their financial constraints, RDAs are highly dependant on internationally funded projects for their seeds multiplication programs. Supervision of multiplication farmers implies that a heavy extension network be maintained, which, in the long term, is not compatible with the stated objectives of shrinking of the role of the RDAs. It also implies involvement of RDA's in input distribution and purchase of produces, which is clearly in contradiction with the objectives of disengagement from marketing activities.

For all these reasons, it is currently considered that, although the present system of small contract farmers may be continued whenever it operates in a cost effective way, production of foundation and certified seeds should not rely exclusively on it, and should also include larger scale private operators. These operators should be able to produce, on a self sustained basis, and with the quality control of the Seeds Service, a secured quantity of seeds through rain-fed or irrigated cultivation.

A number of modern potential investors (among whom former high government officials) have already showed interest in seed production ventures, and have applied for production contracts and financing with the Seed Service. Its seems therefore quite feasible to leave at least a part of the seeds production to the private sector, provided profits can be expected from such activity.

In case of continued deficiencies of ISRA for production of breeder seeds, research and development contracts could even be made with private operators in order to introduce, test and develop new varieties, under the monitoring of the Seeds Service. Among the potential applicants for seed production, one at least would have sufficient qualifications for such activity.

Private operators could have their own treatment and packaging centers, with an agent from the Seeds Service to provide the certification stamp for quality control. Alternatively, they could send their production to the seeds centers presently operated by the Seeds Service. Privatization of those two centers could also be considered to relieve the Seeds Service from this production activity.

2.1.2 Present and potential actors in seeds distribution

Seed distribution is currently performed by RDA's, on cash or credit terms, through individual farmers or farmers groups (in SODEFITEX area). This activity of the RDAs is clearly expected to be phased out under the guidelines of the "New Agricultural Policy" and of the "Plan Cerealier", and be transferred to the private or cooperative sectors.

Cereals seeds marketing is not subject to the same constraints as fertilizer marketing : the market does not depend upon the existence of a consumers's credit system, as quantities needed are small enough to be purchased for cash, by farmers; the minimum needed inventory for each market operator would remain small enough to avoid major financing constraints ; transport and storage are easier given the higher unit value of the product and expected margins can be more substantial.

For these reasons, most market operators currently involved in consumers goods marketing in rural areas or in agricultural input marketing would be potentially understed in seeds marketing, including : regional and local wholesalers ; rural shopkeepers ; SONADIS network of rural retail or wholesale outlets ; the large national firms currently importing and distributing pesticides (SSEPC, MATEMA, SPIA) could also consider seeds as complementary produces for distribution through their local branches or their own salesforce; SONACOS, which already markets peanut seeds through its extended network of peanut buying and storage points, could also market cereals seeds; although it may not be compatible with its current strategy to concentrate on peanuts marketing and processing ; some of the potential private large producers of seeds could also be interested in distribution; finally the official cooperative system, at the level of village SVs and their Regional Unions, could also deal with seed distribution as it does not require specific credit mechanisms.

The difficulty in setting up an efficient distribution network for cereal seeds does not pertain to potential operators, but rather to the technical constraints of seed distribution. The seed variety to be marketed in each climatic area should be the one tested and selected by the Seeds Service for this specific area. The rate of adoption of newly introduced varieties should be carefully programmed and monitored by the Seeds Service in order to saturate each area with the adapted variety and maintain its purity; in order to optimize the use of certified seeds, farmers should be trained to select and keep second and third-generation seeds rather than pushed to purchase new seeds every year.

An efficient distribution system requires therefore a close control over the geographic area of distribution of each variety, which precludes the channelling of seeds through national or even regional private distributors, unless a very costly control system operated by the Seeds Service is set up. Marketing through local retailers would be possible without such a control but would, on the other hand, imply that the distribution of seeds to each retailer be done by the Seeds Service, which would again be a costly and inefficient mechanism. Finally, the most appropriate channel, given the above mentioned constraints, appears to be the cooperative system . Seeds could be delivered to Regional Unions, which in turn would distribute them to the SVs according to the coverage program set up by the Seeds Service. Each SV would gather from its members the sum of money required to purchase seeds, and pay the Regional Union upon delivery. Extension agents could advise farmers and SVs for their purchase program, thus avoiding misuses.

The private sector should not be totally excluded from the distribution scheme, so as to maintain a sound competition with the cooperative system. Local distributors should therefore also have the possibility of purchasing seeds from regional delivery points of the Seeds Service, and to distribute it locally.

2.2 Conditions to the private sector's involvement

The potential interest shown by private operators for seeds production and distribution will not materialize until a number of conditions are previously fulfilled.

The first condition is the price at which seeds can be put on the market. Past experiences have shown that farmers are not ready to pay improved seeds prices that would exceed twice the price of ordinary grains. Such an attitude may be modified in the future, when farmers become more aware of the high financial return of improved seeds, but has to be considered as a constraint in the short term. Available estimates of seeds production costs range from 230 to 280 F.CFA/kg, whereas current millet prices never exceed 100 F.CFA/kg even at the hungry season. A subsidy seems therefore necessary for seeds to find a market and to allow operators to make a profit on production and marketing. This subsidy could be progressively phased out over a five years period.

As a second condition private investors would most likely be ready to invest in equipment only if they are secured an outlet over several years, as they have no control over the market and the distribution network. Such a guarantee can be granted through production contracts covering a period of three to five years with the Seeds Service, for the supply of determined quantities. Once such a guarantee is granted, operators should be able to get medium-term loans for equipment from CNCAS, following the regular procedure.

A third condition is the regular supply of breeder seeds by ISRA to seeds producers. This constraint should be dealt with through appropriate reorganization of ISRA and support to its activity, and /or contracting with private research and development operators.

A fourth condition is the existence of an efficient information and extension system to promote the use of certified seeds among farmers. Contrarily to other seeds, cereals seeds have, in Senegal, only a very limited spontaneous market as farmers are used to keep their millet or sorghum seeds from the production of the previous year whenever it is available. A promotion effort is therefore necessary to create a permanent market large enough to meet the Government's objectives and justify production investment by the private sector.

3. RECOMMENDATIONS FOR ACTION

The recommandation which can be made at this stage concerning improvement of cereals seeds production and distribution should be regarded as preliminary indications of possible actions, to be reviewed or finalized once the presently on-going study on seeds is achieved.

3.1 Proposed organization

Seeds production:

In the proposed organization scheme, a part - scheduled to be gradually growing - of the production of foundation and certified seeds would be handled by specialized modern farms in order to partially relieve the Seeds Service and the RDAs from a very heavy monitoring of seeds production by small contract farmers.

A number of potential private operators, with sufficient financial and technical backing, would be selected by the Seeds Service, and medium term production contracts proposed for the purchase of a specified quantity of seeds over a period of several years. Private operators would resort to the banking system (especially CNCAS) for financing of equipment, eventually with the technical assistance of the Seeds Service for the project design.

The Seeds Service would continue to exercise a quality control on the production of private operators, and to certify seeds. Seeds treatment could be done by private producers, or in the existing treatment centers presently operated by the Seeds Service. The possibility of privatizing those centers should however be considered.

Certified seeds would be purchased by the Seeds Service, at least for the first years, until the demand becomes regular enough to allow normal transactions between producers and distributors. The terms of payment by the Seeds Service should include some advance payment in order to partially cover production costs.

The price should be set at a level allowing, under standard cost conditions, a profitability comparable to other intensive agricultural activities.

Seeds distribution:

Seeds distribution would be primarily handled by regional cooperative Unions, which would purchase seeds from the Seeds Service, and by the local SVs as their distribution agents. Each SV would order in advance the required quantity of seeds from the Union, and pay cash upon delivery. Local private traders should also be left the possibility to play a role in seeds distribution and to purchase regionally from the Seeds Service or the Union.

Consumers prices should be set at a level compatible with farmer's capacity and willingness to pay, and allow a sufficient marketing margin for cooperatives. This implies most probably that the selling price by the Seeds Service be subdsidized, at least for the first years.

3.2 Proposed actions

a) The proposed organization scheme implies that a financing mechanism be set-up to cover the financing of the purchase of seeds by the Seeds Service, including advance payment which would have to be made to producers

The financing should cover a period of time from 6 months to one year, corresponding to the average delay between payment to producers and payment by SVs of purchased seeds. Delivery to Regional Unions could be made on a cash and return basis.

A revolving fund for cereal seeds could be an adequate mechanism to take care of the Seeds Service financial requirement, and USAID's participation in such a Fund could be considered.

The fund could be either operated by the Seeds Service, or preferably by CNCAS as a specific credit account for seeds production. CNCAS would thus pay suppliers on behalf of the Seeds Service and would be reimbursed on the proceeds of the sales to Unions.

b) Although it is clear that the involvement of the private sector in seeds production may alleviate a number of existing constraints, much of the success of the operation will depend upon the Seeds Service's capacity to properly program, manage and monitor seeds activities. Among its functions, the Seeds Service should :

- ensure that ISRA is able to produce the required quantity of breeder seeds, or find alternative sources of supply.

- select, in cooperation with ISRA, the varieties to be introduced in each climatic area and program quantities to be distributed.

- estimate the market needs and program production two years in advance (for production of foundation and certified seeds).

- contract with producers.

- control the quality of production and certify seeds of standard quality.

- deliver the required quantity of seeds to each Regional Union.

It is believed that the Seeds Service will be more able to concentrate on those monitoring and management functions, as it gradually withdraws from direct involvements in production activities. It is obvious however that its management capacity would need to be strengthened, through technical assistance and training. Such actions could be considered for financing by USAID.

c) Also the cooperative system, at the level of Regional Unions, would need technical assistance and training in management for handling seeds distribution. This could also be considered as a possible field of involvement by USAID.

d) The temporary subsidies for cereals seeds would also probably have to be financed by foreign donors.

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CASE STUDY

A NATIONAL IMPORTER/DISTRIBUTOR

DAKAR

1. General presentation:

The company S. has been founded in 1974 by a very wealthy Senegalese businessman primarily to diversify his holdings.

The company started as an importer and wholesaler of building material (flooring, bathroom equipment, plumbing) but soon diversified into other promising ventures. It now has four separate departments for the building materials, the agro-chemicals, the food products, mainly fruits and vegetables, and one for the representation of various foreign producers of miscellaneous equipment.

The company is legally organized in the form of a "Societe Anonyme" (S.A.) whose capital of 100 millions FCFA belongs entirely to the founder, Mr. K.
Mr.K owns a number of businesses and real estate properties in Senegal and in Europe and has shares in most of the country's big companies.
The company S. is managed by one of his brothers and employs, in the four separate departments, a total of 40 persons, of which 5 are managers. The Agro-chemical department, which deals regularly in pesticides and agricultural chemicals, and occasionnaly, when a national or RDA bid is won, on fertilizers, employs 5 persons.

The company has shares in various other firms like an insurance company, an industrial production of vegetables concern and a company which rents heavy agricultural machinery. It also farms 150 hectares of irrigated land through one of its wholly-owned subsidiaries.
Through the owner, it is associated with a number of other Senegalese companies, like an agro-chemical manufacturing plant, a large company of distribution of consumer goods in the Kaolack region and others.

2. Activities:

The Agro-chemical department was organized as a separate entity in 1982 when the company won a very important bid for the import of 10,000 tons of urea for the Ministry of Rural Development. This department imports and distributes small agricultural equipment and tools (pumps, sprayers, generators, etc..), in pesticides and crop protection chemicals and in fertilizers.

The Agro-chemical department represents between 40% and 90% of the total sales of the company which fluctuates greatly with the winning, or not, of the annual national urea import bids from the Ministry of Rural Development/USAID, or from the RDAs like the "Société d'Aménagement du Delta" (SAED).

The company owns a 1200 square meters building in the heart of Dakar's commercial district and a 2500 square meters warehouse nearby plus a building in Saint-Louis of Senegal which serve as both warehouse and store for this region's market. The offices of the company, as well as a retail store for housing and agricultural material, are housed in the main building in Dakar. However, this store acts more as a showroom for the products than as a real retail store since most of the business is done, for the building equipment with the contractors, and for the agricultural equipment and products with RDAs, especially the SAED.
In addition the company operates three 10 tons trucks for its own transport needs and, occasionaly on a contract basis.

The General Manager has plans to export, and even open a branch in Guinea in the next two to three years to distribute agro-chemicals and agricultural equipment, and building materials.

3. Finance.

The data which were provided by the management of the company on the annual gross sales show important fluctuations which are entirely due to the impact of the fertilizer import bids.
In 1983, the total sales were given at 1,176 million FCFA of which the Agro-chemical department represented 816 million, or 70% of the total. In the same year, the company won a national bid to import 10,000 tons of urea for the Ministry of Rural Development and imported 3,500 tons to reexport to Mali.
In 1984, the sales plumetted to 270 million, the Agro-chemical department represented 127 million , or 40% That year no fertilizer was imported by the company and the Agro-chemical department sales were entirely made of pesticides and crop protection chemicals sales to a RDA. In 1985, the sales went back to 600 millions, 535 millions or 90% alone for the Agro-chemical department,

which corresponds to the winning of a fertilizer import market of 4,000 tons for a RDA.

The company works with the BIAO bank in Dakar. It used to work with two other national banks but stopped since their certified checks are not accepted by some. The company can draw up to 200 million through various services such as an overdraft for 30 million, a line of credit for 90 million and others. When it has officially won a national or RDA bid for import of fertilizer, the company has been able to draw up to 300 million from the bank and, in one instance a 200 million short-term loan. The renown of the Chairman of the Board certainly helps the company in its relations with the bankers. The Chairman usually gives his personal caution for the large loans. The normal facilities (overdraft and line of credit) are guaranteed by mortgages worth 120 million, or a coverage of 100%. In 1985 the company paid 30 million to the bank in interest. The company does not use long-term loans, for equipment for instance, it uses instead, by choice, its own funds.
The company has no problem getting credit from the bank thanks to the owner's own credit.

The company does not give any credit to its customers any more. It accumulated bad debts in the amount of 40 millions and now demand cash payments or certified checks from selected banks. However, when its client is a RDA, it has to abide by the RDA's payment conditions specified in the contract. Usually these are credit sales but, even if payments are late, there is no risk of default.

4. Interest in the agricultural inputs market:

The company is interested in the fertilizer market and has the capabilities to organize and finance the import of large quantities of the product. Since 1978, when it imported 10,000 tons of fertilizers from Poland for the now defunct ONCAD, it has been constantly in this market. 13,500 tons imported from Belgium in 1983 for Mali and Senegal, 4,000 tons unloaded, stored and transported in the regions in 1984, 4,000 tons imported from Belgium again in 1985.

It has wide experience with the import, storage and shipment of large quantities of fertilizer (urea) but none in actual sales since it always worked for the Ministry of Rural Development, or for Regional Development Agencies, who always organized the distribution of the product to the final consumer.

With the "New Agricultural Policy", the company is still interested in importing fertilizer since the operation is realized with donor agencies' financial guarantee but it is not itself equipped to distribute large quantities in the peanut basin. However, it could use the organization and resources of an associated company, belonging to the owner of company S., to do it if it were profitable. At present, in the peanut basin, and as long as there is no Rural Bank to provide credit to the farmers individually, or to Cooperatives, to buy the agricultural inputs at the time of year when the cash availability of the population is at the lowest level, the company's managers do not think that it can be very interesting. The margin of 7,000 FCFA per ton offered is interesting but the quantities sold on a cash basis are likely to be very small. It might be worthwile to make a marketing effort if the distributor's own funds were not tied-up in the fertilizer inventory, the cost of which could be assumed by the Ministry of Rural Development, the donor agencies or a bank. They, in turn would get reimbursed the cost of such a "cash and return" scheme when the fertilizer is actually sold, since the 7,000 FCFA per ton margin could be shared.

The company is interested in, and intends to develop its service in the agricultural sector, primarily in the irrigated regions. The primary interest of the company is in the distribution of small farming equipment and chemicals. These products are less bulky to store and transport and they can bring a far higher profit margin than fertilizer. The company is now organizing a sales force for these products and will probably start to market them in the Senegal River region through its Saint-Louis base. If it decides to go into fertilizer distribution directly, it will probably concentrate only into irrigated region where the farmers have a higher revenue than in the peanut basin and know that fertilizer is essential for their crops, which is not the case for the peanut basin farmers. It also just founded a wholly-owned subsidiary to rent heavy equipment and agricultural machinery to farmers and cooperatives in the irrigated regions of the Senegal river basin. It invested more than 120 millions FCFA in this venture and has already won contracts to plough more than 1800 hectares of land.

5. Conclusion:

This case illustrates the activities, results, constraints, opportunities and plans of an import company at the national level. The financial results, as they were communicated, appear small but it should be kept in

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mind that this company is only one element in a vast chain of businesses and commercial and industrial interests.

This case shows that there might be, among wealthy Senegalese families, an interest in the agricultural sector market, mainly in high unit value products or services, in region of future growth.
At present, the distribution of fertilizer does not appear to be seen as a very interesting proposition, although the import, which can bring hefty profits without risks since it is guaranteed by the government and donor agencies, is obviously seen as a good opportunity.

Financing does not constitute a problem for such firms, they use the banking institutions mainly for treasury purposes and not as source of funds for expansion and growth. The investments are usually financed on the company, or its owner's, own funds.

It is also important to note that such a company gives the impression that it relied, until lately, more on profits made through one or two good contracts than through the day-to-day commercial activity of an import and wholesale distribution firm. It seems to have changed and the company is planning to operate on a more regular basis in a new market and cease to depend entirely on the government or parastatals annual contracts for its sales. That this trend is a result of new opportunities opened by the "New Agricultural Policy" is difficult to say with certainty but the timing of the change would suggest it.

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APPENDIX 1

CASE STUDY

AN IMPORTER/DISTRIBUTOR WITH EXPERIENCE IN THE RURAL SECTOR

DAKAR

1. General presentation:

The company G.A. is a two-years old Senegalese Import-Export and Trading company whose offices are located in downtown Dakar.

The President and General Manager of the company is also its founder and single owner.
After more than seventeen years work experience as Director of Marketing and Director of Finance of various companies specialized in providing roducts or services to the agricultural sector , he decided to start his own company. He explained that, during all these years, he was able to build a little capital but, far more importantly, a network of relationships with clients and suppliers in Senegal, in neighbouring countries and in Europe who trusted him and liked the way he was doing business.
He invested his own savings in the new company and did not receive any help from the banks at that time, although he asked for a loan. Foreign suppliers with whom he had been in relation in the past trusted him more than the Senegalese commercial banks, he remarked.

Mr.T., the founder of the company has neither powerful family connections nor personal wealth.

The mission of the company is to serve the rural sector, according to its founder, but since business is slow to grow, he had to organize a second activity in urban pest control to bring an additional income.

2. Activities:

The company specializes in importing and wholeselling agricultural inputs. For the time being, it consists of some farm implements and a few chemicals for which he has exclusive distribution rights, in addition to specialized fertilizers for vegetable gardening. The General Manager hopes to grow into other products and to organize his own salesforce in the future if business picks-up as he thinks it will with the disengagement of the government.

In addition, to this import and trading activity, the company operates a small pest control unit in Dakar

The company employs a total of 14 persons, all but the General Manager and his secretary, working exclusively in the last activity.

The company does business with various actors in the rural sector: RDAs, Cooperatives, large producers and small farmers of vegetables and fruits. It also exports to the Senegalese neighbouring landlocked countries: Burkina Faso, Mali, Niger and even Tchad, and to Togo and Benin. His clients in these countries are mainly the cotton companies and parastatals whith whom he developped, over the years, excellent business relations.

The sales of the company in volume (excluding the pest control activity) are represented by 70% for fertilizers, both for vegetable gardening in Senegal and urea for export, by 20% for chemical products and by 10% for equipment and machinery. The profit contribution is almost exactly the reverse.

3. Finance:

The company has no fixed assets and tries to keep its inventory to a minimum.

It operates on its own funds since, with no guarantees, the banks will not authorize a loan, or even an overdraft facility.

The company has succeeded in getting good financial terms from its foreign suppliers. This is because they have been successfully doing business with the owner in the past, when he still worked as an employee. They usually ask to be paid at 90 days, and in one instance the term goes to 120 days. Since the turnover of the products is high, the company solves its cash-flow problem with suppliers'credit but the General Manager realizes that it is not financially sound and does not provide good chances for growth. His hope is to get a big contract which would "prim the pump" and give enough confidence to the bankers to get a long-term loan. The General Manager is in fact highly critical of the Senegalese banks whose management, according to him, mistrusts the private entrepreneurs and will do business only with the parastatals, the foreign companies and the very wealthy or politically important nationals.

The annual gross sales of the company are in the range of 300 to 400 millions FCFA, or $850,000 to $1,200,000.

No additional information was provided on the financial situation of the company.

4. Interest in agricultural input distribution:

The objective of the General Manager is to develop the activities so that the company becomes an important one, specialized in the import and distribution of agricultural inputs.

However, so far, he is more interested in the vegetable and fruit farming than in the general farming market. He thinks that, in this former market, the private sector can work directly with the farmers. Their income is higher and more regular all year round, and they know the value of fertilizers, chemicals and equipment. Also they have not become dependant on the RDAs to organize their production and buy their inputs.
In the general farming market, he has so far always worked with large, almost industrial farms or with the RDAs. He is not prepared to work with the farmers directly since that would mean, in most cases, working at credit and he does not have the financial resources, the organization and, above all, the confidence to do that.

The company has a single, and not too happy, experience of import and distribution of general crops fertilizer. It imported 2,000 tons of urea for a value of 300 millions and had the greatest difficulty to sell it. Finally a parastatal bought it but it almost cost the owner his newly-founded company. He is not prepared to renew the experience unless he gets a sure contract, and bank financing for the whole amount, guaranteed by the contract, before he imports.

The General Manager thinks that not much can be accomplished by the private sector in the peanut basin as long as there is no well-organized and efficient rural bank to solve the farmers'cash-flow problem. It is not the role of the importers and national distributors, and they could not set up the required organization, to provide credit to the final consumer, and he doubts that the regional wholesalers and the local traders would be willing to do it, even if they had the necessary resources. They probably already give as much credit as they are prepared to risk with a notoriously risky borrower.

On the contrary, the irrigated farming region appears a far more interesting market to the company. The vegetable growers in these regions are, according to the General Manager, closer in their approach to modern agricultural inputs (i.e. the need to invest to increase their revenue) than the peanut and cereal farmers. The disengagement of the RDAs in the irrigated regions opens a whole new opportunity for companies like his own and his first move will be in this direction.

The management of the company thinks that the liberalization policy of the government is going to be very long and painful to implement and that it requires that a number of actions on the part of the government be taken to succeed. The first and most important is the establishment, in the peanut basin, of a rural credit bank. The second would be the removal, like in Ivory Coast, of all import duties on agricultural inputs to reduce the price and make them more affordable to the farmers. A third condition would be the organization of some form of protection for the established companies which are too often undercut by speculators trying to realize short-term profits on public bids. This is especially detrimental in the fertilizer and chemical markets where technical assistance, an expensive service, should be systematically provided to the consumer. The established companies often shy away from making such a long-term investment because the market is very unstable from year to year. Finally the policy should be clearly translated into actions which is not really the case at present. The General Manager illustrates this last remark by mentioning that, last year, his company purchased 25 millions'worth of pesticides for the Senegal river irrigated farming region because it was announced that the local RDA, the SAED, was withdrawing and letting the private sector supply the farmers. In fact, the parastatal kept on distributing this product and the company still has the chemical in its inventory. It fears that this will be the same thing for fertilizers or seeds in the peanut basin.

5. Conclusion:

This case illustrates the situation, constraints and hopes of an entrepreneur struggling to establish a new business on the strenghts of his personal experience of the suppliers network and client markets and with very limited personal, or family, financial resources and consequentely no help from the banking sector.

This entrepreneur is interested in products with a high profit margin and in specialized, moderately affluent markets with a low level of risk (no credit required) where he can compete with better established companies on the basis of the quality of his products or personal service.

If financial resources were more readily available to him, this entrepreneur would probably make the most of the new opportunities opened by the planned withdrawal of the parastatals in agricultural input distribution. However he sees opportunities almost only in the irrigated farming regions and does not seem interested to invest in the peanut basin.

First of all, though, he wants to be sure that this privatization policy is real and that the government is serious about it. Sometimes he wonders if the government will not try to keep all the profitable activities of the parastatals, and blame the private sector for not serving an insolvent market.

APPENDIX 1

CASE STUDY

A REGIONAL WHOLESALER

KAOLACK

1. General presentation:

El Hadj A. L. is one of twenty wholesalers in general merchandises located in Kaolack, the economic capital of the peanut basin, some 190 kilometers south-southeast of Dakar.

This businessman of approximately sixty runs what appears to be a very dynamic and successfull business with two of his sons and an employee. He does not speak French but the son who was present at the interview does perfectly and has obviously, as a minimum, a good secondary education. The personnel of his individual, fully-owned, business is completed by twelve drivers, warehousemen and other unskilled workers.

His main office is located in the same building as his point of sale and bigger warehouse in one of Kaolack's major commercial district. El Hadj A. L. has owned the whole building, where he lives with his family and conducts his business, since 1967. These well-maintained and clean premises of more than 900 square meters and three trucks, one of 20 tons and two of 10 tons, are the main assets, we have been told, of the company.

The owner founded and still manages the business and, with his sons, gives the impression of a very dynamic, shrewd and successfull entrepreneur who now counts as one of the most important in Kaolack. Indeed, he had been invited to the conference on fertilizer distribution organized in Dakar by the Ministry for Rural Development as one of the representatives of Kaolack's merchant community.

2. Description of the business:

El Hadj A. L. runs a wholesale business in food products, mainly rice, flour, sugar, oil and milk, in construction material, mainly cement and sheet-metal, and in soap. He does not deal in groceries, textiles, automotive parts or other traditional products of the Senegalese commerce.
In addition to his role as distributor of consumer goods, he markets local cereals, mostly millet, but considers

this activity as secondary, and almost marginal, compared to his other one. He still pursues it on an opportunity basis though, when he has some cash available and the profits to be had in the very short-term are interesting.

He supplies himself directly from the national producers/manufacturers for most of the goods he sells: soap, cement, oil, flour, milk, or from importers in Dakar for the rest. He himself does not import yet, although he has an "Importer-Exporter" official license.

His storage capacity is estimated at 250 tons.

The transport of purchased goods to Kaolack is assured by his own fleet of trucks. He seldom contracts the transport to outside specialized companies since he does not trust their efficiency, and their drivers' honesty, and thinks their cost is outrageously high. He will use their service only when a delivery is very urgent; otherwise he has organized his trucks' regular schedules to Dakar and calculated that his cost are lower.

The clientele of the wholesale consumer goods business is made of approximately thirty important resalers as far away as the Gambian border to the South and Koussanar to the East. These resalers usually have their own medium-sized store in a small town or large village but do most of their business supplying, in turn, the local small country village store-owner or the peddlar going from weekly market to weekly market to serve even the most isolated rural populations of the peanut basin.
In all cases, the retailers themselves organize the transports of the goods purchased at El Hadj A.L.'s and have their own storage capacity, from ten to fifty tons, which represents their weekly to fortnightly orders.

The local cereals business is somewhat differently organized. El Hadj A.L. will purchase the corn or millet from local village merchant, or from specialized collectors who buy on the markets when the farmers' offers push the price down, and resell it, as soon as possible, on the urban market of Kaolack or in another region where there is an occasional shortage. No long term (from harvest time to the "soudure" months) storage is done by this merchant because he is not willing to tye up his cash for long period of time when the expected profit is no more than 50 FCFA per kilo at best, or less than 100 percent. He thinks that in all these months his money would have earned more if used in other ventures.

3. Financial organization:

The information which has been provided to us makes this business an important regional one by Senegalese standards, for a purely commercial activity (no manufacturing or production).
The gross sales where given at between 100 and 250 millions FCFA a month depending of the time of year: harvest time when the rural consumers earn their annual income and "soudure" time when revenues are at an annual low and the limited remaining disposable farmers'income is tied-up in essential production inputs.
Assuming a total annual sale figure of more than two billion FCFA is probably a conservative figure since the amounts announced are likely to have been underestimated by the interviewees. With a dollar value around 340 FCFA per dollar as of June 1986, this regional wholesale business is doing a minimum of $6 millions a year. With a net profit before taxes of 5 to 10% on gross sales, the income generated is probably in the range of $300,000 to $600,000 a year. However these data should be considered as indicative only.

No figure on the value of the buildings, equipments and stocks were provided.

As in most Senegalese commercial enterprises, most of the sales are done on a cash basis, and the accounting records are kept to a minimum.

El Hadj A.L. has a bank account in the local Kaolack branch of a national bank for his business, since this is a legal requirement to get the wholesaler's licence, but transactions are limited. The bank is used mostly to smooth-up, on a very short-term basis, the treasury needs of the business. The bank granted an overdraft of 4 million FCFA maximum at the usual interest rate of 17 to 18%. This facility is not used either regularly or fully since the owner prefers to work with his own funds, which are probably more than adequate for the day-to-day needs of the business. No medium or long-term loan, for equipment for instance, has ever been asked from the bank. El Hadj A.L. thinks that the guarantees required by the bankers for their loans, for example a mortgage on the personal properties of the business'owner, are out of proportion with the amounts considered.

The business operates on suppliers'credit, or more rightly terms of payments, and with clients paying mostly in cash. The turnover of the goods is very quick and this generates a lot of cash.

The suppliers, which are mainly big manufacturing companies, will bill at fifteen to thirty days for most of the goods purchased. El Hadj A.L. points out that this is a facility which took time to obtain. He his proud of the excellent relations he has been able to build with his suppliers after years of making business with them. The terms he gets are, according to him, unusual but he has been known never to default or make a late repayment during all the years when the credit he got was limited to 25%, and then 50%, of his purchase orders.

He himself grants terms of payments to the resalers he has been working with for a while and are well known to him as serious merchants. Usually he will require that 50% to 70% of the order be paid in cash, the outstanding amount being paid at the next reorder. We were not able to discover wether interest is charged for the period, or if this arrangement should be considered only as a payment facility. The amount given on credit varies with the size of the order and the past record of the borrower He recognizes having, over the years, weeded-out the bad debtors and does not complain about default any more. There are still late repayments but, all in all, he trusts his network of clients.

4. Interest in the distribution of agricultural inputs:

El Hadj A.L. knew very well about the "New Agricultural Policy" and the role businessmen in the private sector are supposed to play in the future for input distribution, especially for fertilizers. One of his son attended the official meeting on that subject in Dakar which had been organized a few days before the interview leading to this case took place.

However he made a very strong point to the effect that he was not prepared, this year, to purchase fertilizers and try to market them. He thinks the financial risk are far too important. He recognizes that the margin offered on the two different products, 0-15-20 and urea, is rather adequate since it compares to the reference product's, cement, but what good is a margin if there is no sale?

He is convinced that, in the Kaolack region, the farmers will not purchase the fertilizers for cash. Since no bank, rural or commercial, is ready, or willing, to replace the RDA's as credit distributing entities in the country, and he himself would not even consider such a role, and least of all to Cooperatives, chances are that the fertilizer he would have to stock will remain in his warehouses till next cropping season, or even longer. He cannot afford the financial burden this will most likely represent and has better opportunities for investment.

He thinks the farmers will not buy cash because (1) they are not sure fertilizer is a good economic proposition in their zone, (2) they have been very affected financially by the past bad crop years and do not have much money available, (3) they will use what little cash is left after their household expenses and repayment of debts for essentials, like seeds, or more secure investments, like cattle and (4) they are convinced the government will come to their help at the last minute if it realizes that no fertilizer is purchased.

The merchants like himself will certainly not give credit to farmers because credit is based on trust vis-a-vis one individual and (1) the rural population has for a long time been a notoriously bad debt repayment population, encouraged by the government itself which granted, for political reasons, too many moratoriums, and (2) there is no way the regional, or even local, merchants can have access to the funds needed but more importantly, set up the credit collection organization and system required to serve a large dispersed population.

The only system which would be acceptable to this merchant is the "cash or return" system. He would, under this arrangement, be prepared to store a limited tonnage of SENCHIM fertilizer and try to push it through his network of distributors. It is likely that they, in turn, will demand the same condition. If a large inventory of unsold fertilizer remained at the end of the season, SENCHIM would take it back. The quantities sold would be paid to SENCHIM on a weekly or fortnightly basis, and reorders passed for new and probably larger quantities till the end of the season of usage of the product.

This year's results would be considered as a market test and determine the private sector merchants' attitude towards fertilizer distribution for the future. El Hadj A.L.'son recognizes that the merchants are not taking any risk in this venture but remarks that the new policy of input distribution was implemented without consultation with the most important party i.e. the private sector businessmen.

As to seed multiplication and distribution they have not yet been informed of the privatization scheme. There apparentely has been no change in the role of the specialized government agencies, like ISRA, and the RDAs. Around Kaolack, the SONACOS, sells the seeds in the seccos (village warehouses) and to their knowledge no businessmen has been contacted to be offered a role either in seed multiplication or distribution.

However, the market for seeds looks more promising to the company's managers, since seeds are a higher priority than fertilizer to farmers. This is because first, the farmers must have seeds to plant, and second, seeds require a smaller cash outlay

5. Conclusion:

This case illustrates the strenghts and weaknesses of a very important category of commercial businessmen in Senegal: the large regional wholesaler.
The sales and profits are very important, truly enormous by Senegalese standards, and still the business is operated on a cash basis, with very little formal organization and almost no management systems by the owner and close members of his family.
These merchants are supplying the essential link between the national producers and importers, mostly based in Dakar and with generally no distribution organization in the regions, and the hundreds of local traders which allow the goods to penetrate towards a widely dispersed and relatively unmoving rural population.
They are shrewd and dynamic entrepreneurs, to a point.
It is striking to realize, for instance, how little vertical integration there is in the Senegalese commercial sector. These regional merchants, even without the banks would probably have the financial resources and business knowledge to create a chain of stores, for instance, or organize the sale of their products to the weekly markets but they seem to want to stay at their present level.
Since no data is available on the profits generated by these types of business, and since the commercial books as well as the real assets of the business owners are a very closely guarded secret, it is impossible to know if conspicuous consumption, charities, real estate, shares in other business, investment abroad, or any other channels are used to spend the income generated by the wholesale business.

In any case the category of merchants illustrated in this case has the financial resources, and the power and influence, to play, if it is willing, a crucial role in agricultural input distribution. Since their number is limited and they operate over large regions, they should probably be chosen as the key target for the marketing and organization of the privatization drive.

APPENDIX 1

CASE STUDY

A REGIONAL WHOLESALER

TAMBACOUNDA

1.General presentation:

Mr.N is one of the two Tambacounda-based wholesalers / retailers.

A former employee, on his own since five years, this businessman, about fifty years old, is specialized in food products (rice, oil, sugar, millet, flour, etc...), construction materials (corrugated iron, cement) and miscellaneous products trading.

The wholesale trade represents 70 %, while the retail trade 30 % of his business.

The business is run in a warehouse opposite to the market, on Tambacounda main trading street ; but Mr. N. has other warehouses on various places in the city.

The business is of a family type, headed by Mr. N., with the help of his two children and a cousin ; it permanently employs four labourers.

The supply is done from local industries and importers. Although Mr. N. possesses an impot-export license, he is not doing this kind of business, and transportation to Tambacounda is secured by private carriers.

3. Finance:

The purchase from local suppliers is done with a down payment of 80 to 90% of the total amount ; the remaining is due no later than 30 days.

The company has a bank account at USB, which can give it credit when purchasing merchandise.

Given the size of his company, Mr. N. does not have difficulties accessing credit ; the announced turnover varies according to periods, from 12 to 20 million per month, with an average of 15 million. Mr. N. who got a bank loan to open his business, did not want to indicate the amount of that loan. (the monthly turnover indicated is probably underestimated, given a rice quota of 450 metric tons).

The clients of this Company are retailers based in Tambacounda and the surrounding areas ; this network of retailers can reach places as far as Kidira and Fongolimbi, at the borders of Mali and Guinee respectively. These clients that buy periodically (they come on the average from every two weeks to one month), generally pay cash ; but sometimes they do have access to informal credit from Mr. N. in the form of merchandise.

4. Interest in the distribution of agricultural inputs:

Asked about the Nouvelle Politique Agricole, Mr. N. said he was aware of new measures, and thinks, as a businessman, he will be interested in anything that will let him make money ; but he believes that, for the specific case of fertilizers, a 7 000 F.CFA margin representing about 15 % of the sale price to farmers is very thin ; in his opinion, this margin should be 25% to 30 % of the sale price, so as to create an incentive to businessmen that would go into this kind of trade which is not without risks, given that all the state-owned companies previously in this field went bankrupt.

Speaking about the farmers' reputation as bad debt payers, Mr. N. said if he were to be involved in fertilizer trading, he would adopt the same system as now, i.e. he would require that farmers pay cash since the majority are cattle owners, and therefore will be able to sell some animals in order to meet fertilizers expenses.

5. Conclusion

This case study illustrates the position of an successfull wholesaler in a region were fertilizer is probably easier to sell to farmers/herdsmen than in dryer areas. Always looking for new business opportunities, this merchant is potentially interested in the profits offered by the sale of this new product but is somewhat reluctant to make a move until the demand is clear. Although he would probably have the financial resources to purchase and store fertilizer, and try to push it to customers, he prefers to wait for them to come to him and then, he will provide the required service or product. In thez meantime, he will use his financial resources and his efforts to market proven goods.

He thinks that it is better to make a small but sure profit than to try to make a big one if the associated risks are also very high. Apparently, this reasoning has brought him good results so far.

APPENDIX 1

CASE STUDY

A LOCAL MERCHANT

N'DOFANE

1. General presentation:

Mr. Amadou S.D. is a merchant in N'DOFANE, a medium sized village some twenty kilometers south of KAOLACK, near the Gambian border.
This agricultural region which supports a rather large population has been severely affected by the drought of the last years and, even if last year's crops were good, the farmers' revenue is low.
The region produces mainly peanut and millet.

Mr. Amadou S.D. has been a merchant in this location since 1939. He is now in his seventies but still working. The business represents his main source of income although he, like everybody else in the village, farms a piece of land.
He has not received any schooling and does not understand French.

His store is located on the market place and he lives in a rather large house nearby; both, as well as a warehouse are wholly-owned. He also owns four trucks in various conditions, but all are operating.

2. Activities:

Mr. Amadou S.D. operates a retail store in the village and he supplies smaller retailers operating in the village nearby and from market to market. The total sales are divided roughly 20% for the retail business and 80% for the resale.
The products sold are the traditional goods of the Senegalese commerce: mainly food products in bulk, rice, milk, suger, oil, cement and sheet-metal, fabric and clothing, soap and miscellaneous general household merchandise.

In addition to his distribution activity, Mr. Amadou S.D. buys and markets some local cereals. He does it on an opportunity basis when he has a demand for it and usually he does not store very long, aweek or two is the usual period. This activity is marginal compared to the other.

The business is individually owned and Mr. Amadou S.D.

operates with two of his children on a regular basis plus, if needed, some additional family help. He does not have any outside employee.

He supplies himself directly from the producer for oil, cement and soap and from regional wholesalers for the rest of his merchandises. He organizes the transport of his goods either through transport companies, or with his own trucks.

Mr. Amadou complains that the impact of the bad economic situation has been increased, for the merchants, by the smuggling of goods from Gambia which are sold at prices so low they are impossible to match by the licenced businessmen.

3. Finance:

The information provided for the gross sales is of three to eight millions FCFA a month. It fluctuates during the year since the rural population which represents his market earns its annual income at harvest time. The months of December to February are usually good ones for merchants, while the lowest sales are just before the millet harvest in September.
If we average the monthly sale to 5 millions FCFA a month, the total annual gross sales of this local merchant is in the order of 60 millions FCFA, or approximately $180,000. Assuming a net profit margin before taxes of 5% to 10%, such a local tradesman probably earns around $9,000 to $18,000 a year from his commercial activity. An additional income is earned from the farming of his land.
This makes this local merchant a relatively well-off individual by Senegalese standards.

Mr.Amadou S.D works with a bank, the BIAO, in Kaolack.He opened an account to get his wholesaler's licence and has an overdraft of 4 millions on which he pays 17% interest a year. The interest rate appears reasonable to Mr. Amadou S.D who knows about the interests charged through the informal credit mechanisms but he thinks that the guarantees required by the bank are too high for a well established merchant like him. The bank asked him for a mortgage on his personal properties and that makes him afraid to lose a number of years'worth of effort if something happens to him or his business. He cannot but default once.

Mr.Amadou S.D. usually buys his products on credit,at least for a percentage of his order. The credit with the manufacturers and producers is higher than with wholesalers in Dakar or Kaolack. He also gets a better discount from them. The normal terms are 30 days payment with a percentage of the order paid in cash. The percentage varies according to wether the credit is free of interest or not.

He, in turn grants usually 30 days terms of payment to the resalers he has been working with for a while but insists that, in every case, some of the order be paid in cash. Also, when the client reorders, he has to pay in full the previous order to get another credit. We have not been able to know if interest is charged.
According to him, he does not give any credit to individual clients at the retail store except to civil servants who have a fixed and regular income, or who provide various services.

4. Interest in the distribution of agricultural inputs:

Prior to our interview, Mr. Amadou S.D. received the visit of one of SENCHIM's salesmen. Senchim is this year's importer and manufacturer of subsidized fertilizer. During this visit, he verbally agreed to buy 10 tons of fertilizer to try to sell it around N'Dofane. This committment had not yet been transformed into a firm order, although the season for fertilizer use was almost at hand. Futhermore, Mr. Amadou S.D. recognized that he had no idea of the cost this order would represent, of the profit it could bring, of the purchasing terms and conditions or to whom he would sell it. However, ten tons did not seem to represent too big a financial risk and he was prepared to assume it and see what would happen. In the worst of cases, he would use between one and two tons for the fields of his own family, and could probably find ten other owners with the cash to buy his stock. If the resalers, and the farmers around N'Doiane did buy, he would then order more from Senchim.

He is somewhat doubtful though, of the possibilities to sell fertilizer in large quantities in the region where he operates for the following reasons: (1) most of the farmers he knows, including himself, are not convinced that the purchase cost of chemical fertilizer is automatically recovered through increase in production because there has been too many years with not enough rain and, (2) they are not ready to spend what little cash they have left in July or August to buy a product they don't really believe in. They would rather buy domestic animals which constitutes agood investment and can also produce fertilizer in the form of manure.

He thus foresees that, this year, very little chemical fertilizer will be used in his region, or that the government, through the SONACOS will distribute it to farmers when it realizes that no sales are made.

He will definitely wait to see if he adds fertilizer to his line of products.

5. Conclusion:

Mr. Amadou S.D. is an old and relatively wealthy local merchant in a rural area who has slowly built, over a number of years, a good little business. He is very careful not to risk his own funds, or his properties through the guarantees he would have to give to get a bank loan, in a new venture. He seemed happy enough with his present activity and income level, and with the position he made for himself and his family in the village and region. That, in addition to his age, probably explains why he has no plan to expand through what he thinks is, at best, a risky proposition. He will probably wait to see if others make a profit on the new opportunity, and if this opportunity still exists next year, before he commits more than a very limited amount of cash (10 tons will cost him three days' worth of sales).

CASE STUDY

A LOCAL MERCHANT

KOUSSANAR

1. General presentation:

Mr.N.B.is one of three local storekeepers of the medium-sized village of Koussanar, about 70 kilometers east of the cities of Tambacounde, capital of the region of "Senegal Oriental" (Eastern Senegal).

The village counts approximately 5000 inhabitants and is located in a rather heavily forested region by Senegalese standards. The average rains are good, and both far more regular and important than further west around Kaolack. This allows for good crops of peanuts, millet and corn, and cotton and for the raising of large herds of cattle, cows, sheep and goats. The average productivity per hectare is also higher than in the province of "Sine-Saloum" and the country less heavily populated. Most farmers are also herdsmen and cattle supplement their yearly crop income.

Mr.N.B., whose age is in the fifties, has not been at school and does not understand French. He had been a farmer and herdsman for sixteen years before the capital of his farm allowed him to open a general merchandise store in Koussanar, not far from his land. He is the sole owner of the individual business he has been operating now for the past fifteen years. The first years, till 1981, were good years and his business expanded, allowing him to purchase the building housing his family, store and inventory as well as a second one where he intended to open another shop. However, lately, business has not been very good and the second store had to be closed. The first one is operated by the owner and two members of his family. There is no employee.

2. Activities:

Mr.N.B.'s business is typical of the type of commercial activity existing in the small cities and large villages of Senegal. The store is family-operated and located in the same building as the family house and offers a variety of goods from food products to hardware, textile and toiletries. The food products in bulk, mainly rice, oil, sugar and tea, and the soap, represent seventy percent of the total sales, followed by the fabrics, which account for twenty percent and the rest, canned goods, pots and pans, tools, stationery, etc... accounting for remaining sales. However the first category of products have a very small profit margin at the local storekeeper's level and the manufactured goods account, according to Mr. N.B. who does not keep records by category of products, for fifty to sixty percent of the total profits.

Mr.N.B. has a storage capacity of approximately four tons of merchandises, in addition of the goods piled up in his store which looked pretty crowded. The total surface of the store is estimated at 150 square meters.

He supplies himself from regional wholesalers in Kaolack. His main suppliers are a Senegalese merchant who is a personal friend and helped him start his business for the food products and the soap, and a Lebanese merchant for the textiles.
He does not have a pick-up or a truck and contracts the transport of the purchased goods, generally once fortnightly, to a transporter.

His clients are the local population around Koussanar and some smaller village storekeepers nearby and itinerant merchants going from market to market. However these last two sources of sale, which at one time accounted for more than fifty percent of his business, tend to disappear either because the rural population has less and less money or because these retailers supply themselves elsewhere, Mr. N.B. does not know.

A very important factor to explain the drop in sales, according to Mr. N.B., is the huge amount of smuggling which is done from the Gambia. The price of the contraband goods, even after the transport and other costs, is often half of the price the local legal merchants can offer.

3. Financial organization:

The average sales were given at 30,000 FCFA per day, down from 150,000 FCFA in 1980-1981. This amounts, for this type of business which is operated all year round, to approximately 11 millions FCFA a year, or $32,000.
Assuming an average profit margin of between 5 and 10 percent, the revenue generated is obviously very low, in the range of 550,000 FCFA TO 1,100,000 FCFA, or $1500 to $3000 a year. This compare with the average yearly revenue of a Senegalese farmer of approximately 200,000 FCFA, or $ 600 a year.

However, in the case of Mr. N.B., as with probably most of these local village traders, commerce is not the only source of income. He has his fields and herd to supplement the family revenue. The additional commercial income makes Mr. N.B., in his village of Koussanar, a relatively wealthy individual, though nothing compared to the merchants at the regional level.

Mr.N.B.'suppliers usually ask for 25% of the valueof his order in cash, the remaining being paid at the next reorder, generally within fifteen days. When he does not have the necessary cash, he usually reduces the value of his order rather than borrow. The bank will not lend him since he cannot offer much in terms of guarantees and has no previous records of deposits with them, and the informal credit suppliers'rates will eat all his profit. Reducing the amount of the order is not very important anyway since the customers, if they cannot be satisfied, will probably wait a while and have little opportunity to get the goods elsewhere. He just makes sure he always have enough of the most essential food products.

Mr.N.B.gives terms of payments to his regularindividual customers in the village if they need it but is usually paid in cash. He does not give credit, or terms, to the smaller resalers anymore since he got into serious difficulties in the past with huge amounts of bad debts which were never repaid. The borrowers, mainly Mauritanians which traditionally trade at the village level in Senegal, having, according to Mr. N.B., the habit of getting in debt just before leaving to go back to their own country.

Mr.N.B.thinks that to recover the lost sales, andincrease his profit, he should compete with the smaller resalers in the country. He thought of purchasing a small second-hand pick-up truck to sell goods from market to market, but he finally renounced the idea because he does not have the cash to do it on his own funds and does not want to borrow for a risky venture. If that fails he might lose 10 years worth of effort.

4. Interest in the distribution of agricultural inputs:

Mr.N.B.has heard of the "New Agricultural Policy" but does not realize very well what it means for him. The implications for his business are not clear. As a long time successfull farmer, he knows of the economic value of the fertilizers and is conviced that, in the Koussanar region, most farmers are also aware of it. They are likely to be willing to buy it for cash, if they have no other choice and have probably the savings, in the form of cattle, to do it. But he himself will not try to sell fertilizers this year since nobody else is doing it and the government is likely, in his opinion, to provide it once again through the RDAs.

The amount of cash he would have to direct towards fertilizer purchase would not allow him to conduct the rest of his business, which is not much, but at least secure. If the crops are good the next two or three years he anticipates that his business is likely to pick-up by itself. He does not want to borrow to build up an inventory of fertilizer which might not sell if big fertilizer importers, the RDAs, or Cooperatives get into the distribution.

D. Conclusion:

This case illustrates the operating conditions, results and attitude of a small storekeeper at the village level. Not really prepared to take financial or commercial risks, he still probably relies more on his revenue as farmer and owner of cattle than from his commercial venture.

The products sold, and the operating conditions, are very traditional: essentials for cash.

Probably all of the small profits generated are used for family consumption and very little, if any, is reinvested in the business.

Their economic role as the last link before the final consumer in the distribution chain is, at present, essential but individually they are too small and financially weak to take any kind of leadership in a new distribution venture: product or system.

APPENDIX 1

CASE STUDY

A LOCAL WHOLESALER/RETAILER

KHOUNGEUL

1.General presentation and activities:

Established in Koungheul for the past 23 years, Mr. Djibi D. is involved in the wholesale and retail trade of a variety of products : food products (rice, millet, sugar, oil, biscuits, flour, tomatopaste, etc...), consumer goods, hardware products, fabric and clothing.

His business, of respectable size, is run by himself, along with his three brothers and four wifes, each of whom, as Mr. D. puts it, is capable of running a separate business This personnel is completed by a driver, a watchman and a labourer.

The company's fleet comprises a tilted pick-up truck and a service car.

The company also sells two types of cereals : rice (with a 60 tons quota each month) and millet bought from producers through middlemen, and sold as soon as a client shows up. With the cereal shortages of two years ago, the company was able to commercialize as much as 30 metric tons of millet every month ; but given this year's good harvest, millet trading has lost much of its interest, according to Mr. D.

Mr.D.buys at local industries, and at some Kaolack based wholesalers. He generally pays cash and has his products sent to Koungheul by private carriers.

The main clients of the company are retailers established in rural areas They number about ten and each buys on the average up to 300 000 FCFA worth of goods every two weeks They can have credit for 25 % of the purchased amount, reimbursable the next time they come for supplies.

3. Finance:

The maximum turnover is around 2 - 2.5 million FCFA per day in "peak periods" (corresponding to after harvest period) ; in "low periods", it is about 1 million.

Mr.Djibi D's company has always been run on his own funds, because Mr. D. thinks working with banks has

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risks. He has a bank account just because his suppliers and the law require to have one, and he thinks the bank charges are too high. According to him, he got a loan proposal from the bank, but the conditions were very severe, plus the bank administrations are often, according to his own experience, very corrupt. They would ask for money to process the loan application and this increase the real interest rate charged on the money obtained.

The family business enjoyed a steady growth until 1981-1982, then stagnated. One of the reasons for this stagnation is the smuggling of products such as sugar, flour, tomato paste and tea from the Gambia. For example sugar is generally sold 225 FCFA/kg on the black market, but its rate can go as low as 175 FCFA/kg, compared to the official price of 375 FCFA per kilo.

4.Interest in the agricultural input distribution:

Speaking about NPA, Mr Djibi D. first regrets the way the last peanut commercialization was done. According to him , unskilled outsiders tried to seize the occasion to make money ; they got bank loans after having distributed bribes all over, and finally went bankrupt. He has been told that only one businessman made money during the last campaign of peanut commercialization. That is why Mr. D. preaches caution and patience. Hhe prefers to see a clear situation before pouring his money into that kind of business

About fertilizers and seeds, the interviewees (Mr. D. and his brother) believed it can be a profitable business, and said they will be interested in creating a fertilizer section with their existing personnel, but there is one condition : they want the monopoly of fertilizer trading in Koungheul and the surrounding areas. According to them, they would invest their own funds, therefore will not allow, once their business will be booming, to be unfairly challenged by other traders who at the beginning did not want to take any risk, but kept a "wait and see" attitude.

Mr.D thinks dealing with fertilizer can be profitable once the farmers are used to save for its purchase from last year's income since most of them know of its value to increase their crops and thus their revenue. However, for the time being, they are too used to get it free, or at credit they never reimburse, to purchase it by themselves. Also they think that the Government will, once more, provide it to them so they do not intend to spend what little cash they have on fertilizers and, consequently, Mr. D will not offer it for sale.

5. Conclusion

This case presents a merchant whose business is probably already good and profitable enough for him and is not driven by additional growth if it means taking risks, or putting a lot of marketing efforts to achieve it. His position is to reap the benefits from a new opportunity if all chances are guaranteed. Having achieved what he consider to be a good success and position in life, he does not appear to be ready to push much further, and will probably keep on managing a very well known business in a traditional way which leaves him a lot of leisure time, do not attract attention or envy in his community, and do not endanger in the slightest the gains already made.

APPENDIX 1

CASE STUDY

A CEREALS WHOLESALER

KAOLACK

1. General presentation:

Kaolack is the second largest city of Senegal, and the capital of the region with highest cereal surpluses (millet, sorghum, maize).

Among the wholesalers established in Kaolack (around 20 operating on a regional scale), Mr. X is a medium-sized operator established since 1939.
He is the sole owner of his business, legally considered as an "individual entreprise".
He has a traditional educational background, and speaks only wolof, although apprently he can also read French.

2. Activities and organization:

Mr.X is specialized in cereals marketing (rice, millet, sorghum, maize) and does not deal with any other product. His main activity is rice, which he buys in Kaolack from the local "Caisse de Perequation" branch (a state-owned corporation with monopoly on rice imports). His buying quota is 90 tons per month. He also deals with millet and some maize, with average purchases around 20 tons per month in 1985/1986, and substantially less in previous years, as marketable surpluses in the region were very low because of the drought.

Both activities, for imported rice and local cereals, seem to reach a balance which depends on climatic conditions : when cereal production is low (as in 1984), he sells more rice, especially in rural areas, and has then to buy rice from other wholesalers who do not reach their quota. When cereal production is high, as in 1985/1986, he sells less imported rice, but is more active on millet.

He seems to consider that rice marketing is easier and more profitable, as margins are fixed, and it requires less financing (he buys monthly on a 30 days term).

His annual turnover is in the range of 200 million, 80 % of which for rice and 20 % for local cereals.

Mr.X has a store located on the main commercial street of

Kaolack, near the market place. It consists of a bare room used as storage room and office. The storage capacity is 150 tons in bags. The room is sparsely equipped with a scale, a desk and chairs for visitors. Mr.X has no truck and has to contract transport with truck owners.

Mr.X works with his brother and his two sons. He has no permanent employees, but hires daily workers for handling.

His supply network for local cereals is made of itinerant small traders who service the various weekly markets of the region, and local shopkeepers in villages. Permanent links of mutual confidence, allowing the use of credit, have been established between Mr. X and his suppliers, whom he calls "hommes de confiance". Most of the time, his suppliers act as agents : they are paid -at least partly- in advance. They buy from farmers at a price agreed upon with the wholesaler, and are remunerated by a fixed commission.

Local cereals purchase activities are more important after harvest when prices are lowest. They continue, however, till the "hunger season" if grain is still available. Mr. X prefers to follow the demand rather than to buy larger quantities after harvest and store for a long period.

Mr.X sells his rice locally, to retailers established on Kaolack market places, or to shopkeepers in smaller towns and villages of the region. Millet is also sold through the same retailers network in Kaolack, when prices are favourable. The major part of it, however, is sold to wholesalers in the grain deficit areas in the north of the country, or to Dakar, depending on where prices are higher.

3.Finance:

Mr.X has a bank account and overdraft facilities, the ceiling of which does not seem to be determined and has to be negociated periodically. He bitterly complains that bank credit is arbitrary and depends on whether or not you have "friends" with the bank.

Mr.X identifies the shortage of cash as his major constraint, which hampers marketing of local cereals. Indeed, his credit requirements are much higher for local cereals, since he has to prefinance his supplies and his distributions and the inventory turnover is much lower than on rice. If credit was more easily available, and at a lower cost, he indicates that he would be able to purchase and market higher quantities.

If Mr. X had lower financial constraints, he would also like to get involved in cement and cola nuts marketing.

The profit generated by Mr X's business can be estimated around 10 million FCFA a year, and is probably not sufficient to be reinvested as working capital.

5. Conclusion

This case study illustrates the typical attitude of a medium-sized cereals wholesaler. Because of the high opportunity cost of his capital, Mr. X prefers to limit his dealings with local cereals and concentrate on other produces which have a faster turnover. His borrowing capacity is limited by bank requirements. If additional credit facilities were made available to him, he might want to use them for developing an activity of distribution of imported food rather than cereals marketing, unless some mechanism links the granting of this additional credit to his cereal activity.

CASE STUDY

A CEREAL NATIONAL IMPORTER/WHOLESALER

DAKAR

1. General presentation:

Mr.D is among the most important importers and distributors of food and other consumer goods in Senegal. His office is downtown Dakar, an area where most of the import and wholesale activity is concentrated.

He is the sole owner of his business (an "individual enterprise") which he started twenty years ago.

2. Activities and organization:

Mr.D has two major lines of activity :

- import of foodstuff and distribution of rice, oil, sugar, wheat, flour, cement, soap, oil cakes, etc...
- transport, with a fleet of 20 trucks.

Marketing of local agricultural products (mostly millet) is a subsidiary activity.

His annual turnover is announced at 4 billion FCFA, among which rice accounts for 25 %, with a buying quota of 500 tons per month.
In 1985/1986, Mr. D. handled 400 tons of millet (and some maize), which he considers to be a small quantity that could be considerably increased if financial constraints were alleviated.

Mr.D has 30 employees among which 20 are truck drivers, and an administration/accounting staff. He also hires daily workers for loading/unloading work.

His head office in Dakar includes a storage room and administrative offices. He also owns two warehouses in the suburbs of Dakar and two retail outlets in Dakar proper.

His distribution network is nationwide and consists of regional and local wholesalers whose establishment, in a number of cases, he financed himself.

3. Finance:

Being an individual enterprise, Mr. D's does not publish financial statements and no data are available on the profit generated by this business.

Mr.D has accounts with the major banks in Dakar, and can negociate overdraft facilities with them. These are usually backed by mortgages on personal properties. His current liabilities with the banks do not exceed 100 million CFA, however. Most of his activities are financed on his. own funds and by suppliers'credit, although he probably would not have too many problems in increasing his overdraft ceiling. The investment in trucks is mostly financed through the Senegalese leasing corporation.

4. Involvement in cereals marketing and constraints:

Mr.D declares he is satisfied with the ongoing deregulation on local cereal markets. This has already made his business easier. He considers however that the lack of an adequate financing system is the main constraint which prevents him to be as active as he could on cereal marketing. With the present interest charges on overdraft (18 % a year), he has to limit his purchases to the amount which can be sold immediately and cannot store for periods exceeding one or two months.

He claims to be able to handle 2000 tons, and to be willing to do it, if adequate financial facilities were available. In order to do so, he would set up purchasing points in production areas, in addition to his network of local/regional traders who could assemble for him.

He apparently does not feel the same constraints on rice marketing, however, and is considering direct import of rice, as soon as the CPSP monopoly is abolished.

He would also be interested in millet exports, if this was permitted, and claims to have potential outlets.

Mr.D was approached by USAID for the distribution of fertilizer, but is not very keen in getting into this new business. He does not "feel" the market and fears that his margin might be absorbed by financial costs related to unsold stocks. He claims that he would be more motivated by a "cash and return" system.

5. Conclusion

Unlike smaller regional wholesalers, the development of Mr. D's activities are not really limited by financial constraints. His involvement with local cereals is not therefore limited by a shortage of cash, but rather by his own reluctance to store grains for more than one month at a time. He would probably be motivated to increase purchases and storage of local cereals if soft credit conditions were made available to him for that specific purpose. Liberalization of exports would also constitutes a strong motivation to him, as this would provide him with a more regular, and probably more profitable, outlet than local seasonal demand.

APPENDIX 2

THE COOPERATIVE MOVEMENT

Senegal has a long history with the cooperative movement, essentially based on peanut marketing. The former cooperative structure, abolished in 1982, was based on multi-village cooperatives, too far from farmers' concerns and too big to be efficiently controlled by them and to include solidarity links between members. This cooperative structure ended in total bankruptcy, together with the credit program ("Programme Agricole") and the marketing board (ONCAD) to which it was closely related.

In 1983/84, The Government of Senegal proceeded with the creation of village level cooperative sections ("sections villageoises", or S.Vs.), smaller than the farmer cooperatives, granted by law with legal entity and borrowing capacity. Such S.Vs. are intended to be multi-functional, and to deal with produce marketing, credit and input distribution on various crops. Although granted wiht an extensive autonomy, S.V.'s are grouped, at the "Communaut Rurale" level (smallest administrative unit with an average population around 10 000), into newly created rural cooperatives.

All cooperatives within an "arrondissement" belong to the local union at the arrondissement level, while larger unions exist at the department and regional level. Finally a national union (UNCA) gathers all regional unions. Unions at all levels are assisted, advised and controlled by agents from the "Direction de l'Action Cooperative", a part of the Ministry of Rural Development. 4 500 S.Vs, 340 cooperatives, 90 local unions, 30 departemental unions and 10 regional unions have thus been created. This pyramidal structure is however more theoretical than real and most of the components exist only on paper. With the exception of a few pilot programs, cooperatives and S.Vs are usually active only in some areas as buying agents for peanuts on behalf of SONACOS, and have no more significant role in input and credit distribution, as previous programs, have been disrupted.

Among the pilot programs under implementation, one may note:

- A program financed in 1986 by CNCAS for peanut seeds credit to S.Vs in the Thi s region. In order to participate in the program, S.Vs must fulfill a number of conditions. They must have paid back already all their outstanding debts. Their members must have paid their 1000 FCFA share in the capital of the S.Vs, and deposited, in a special account with CNCAS, 25% of the cost of the seeds. The program seems to be a success and 315 million FCFA of credit could thus be used for seeds purchases from SONACOS.

- UNCA also finances, on its own resources derived from peanut marketing, a credit program for the purchase by the S.Vs, from SONACOS, of 11 000 tons of peanut seeds. This program, initiated in 1984/1985, features a 80% repayment rate.

- UNCA was also in charge, in 1985, of distributing fertilizer prepaid by the peanut producers with the "retenue a la source" system.. This program is disrupted as the system was cancelled during the 1985 campaign.

- UNCA has also participated in 1986 in the subsidized cash sales of fertilizer program initiated by USAID. It has not been able, so far, to sell more than approximately 800 tons from the 5,000 tons of fertilizers it purchased from SENCHIM.

- Local Unions and S.Vs in the Sine-Salloum region have purchased 15,000 tons of millet on behalf, and with the financing, of C.S.A., as part of the price stabilization program for local cereals in 1985/1986.

In addition to the official cooperative structure, regional developemnt corporations have created, in order to channel inputs to farmers, their own farmers groups system, called "Groupements de productions" in the area serviced by SAED, and "Association de producteurs de base" in areas serviced by SODEFITEX. A recent law has entitled such informal groups to legal entity with the conditions that they should be crop specific (in cotton, rice, livestock or vegetable gardening for instance) in order to avoid competition with the official cooperatives. When closely monitored by the RDAs, these groups are able to manage input distribution, with credit programs financed through the RDAs from the budget of specific development projects.

CASE STUDY

A VILLAGE COOPERATIVE GROUP

CHERIF LO

1. General presentation:

CHERIF LO is a large village including 103 chiefs of households, with a population estimated at 1000 inhabitants. It is located 10 km from Thies, and has the average climatic conditions of the peanut basin.

Agriculture is the main activity. Peanuts account for 40% of the cultivated area, and is the major cash generating activity. Millet accounts for 40 to 50 % of the area but its production, because of low yields, is barely sufficient for home consumption. Vegetable gardening and livestock are subsidiary activities for some farmers, who market a part of their production to Thies.

The averege holding is around 4 ha per farm, for a family of 8 to 10 people, among which 4 are working on the farm. These conditions are typical of the central area of the Peanut Basin.

The most acute problem presently faced by CHERIF LO's farmers (in June 1986) is the need for peanut seed. These are not distributed any more by the government agencies. Because of lack of seeds, peanut growing areas had to be substancially reduced in 1985. The same problem of seed availability occurs once more this year, a month before sowing time.

Lack of fertilizer is considered to be another problem, of lesser gravity, although farmers used limited amounts, mainly for millet, when it was available on a credit basis.

CHERIF LO is one of the villages to which an experimental credit for peanut seeds purchases has been extended in 1986 by CNCAS.

2. Activity and organization:

The village of CHERIF LO is the center of a "Communaut Rurale" (C.R.), the smallest administrative unit in rural Senegal, grouping 66 villages with a population of 11 000.

Until 1982, five cooperatives were operating in the C.R., mainly for peanut marketing and distribution, on a credit basis, of agricultural inputs. As elsewhere, bad debts had accumulated and were finally cancelled by Government in 1981, whereas credit programs were interrupted. Peanut marketing was taken over in the village by a private trader, licenced by SONACOS, under the usual marketing arrangement. In 1983, following the reform of the cooperative system in Senegal, the existing cooperatives were officially dissolved, and merged into one rural cooperative for the whole C.R. At the same time, farmers were asked to build up, at a smaller level, village cooperative groups ("sections villageoises", S.V.), as subdivisions of the cooperative. CHERIF LO farmers decided then to have their own S.V;, although the benefit they could get from such a new institution was not clear at that time.

The new cooperative structure remained dormant until 1985, when CNCAS opened a branch in Thi s, and advertized the possibility to grant limited credit to formally organized S.Vs. With this new motivation, 127 farmers in CHERIF LO accepted to pay their shares of 1000 F.CFA in the capital of the S.V. which thus became officially registered and liable to credit.

ORGANIZATIONAL STRUCTURE

The S.V. is managed by a board of five elected members, among which a secretary, a treasurer and a President, all relatively wealthy farmers and heads of households ("Chef de carr ").

The S.V. has taken over the storage room, formaly belonging to ONCAD, and uses the village meeting room for meetings.

The S.V. has no permanent employee, and accounting is considered as a potential problem for the future, once the S.V. increases its activities. None of members of the Board writes or speaks French.

The S.V. has two bank accounts with CNCAS, one for the deposit of equity and one for credit operations. Only the President can sign checks.

ACTIVITIES

The first activity of the S.V. was to participate in the credit program for peanut seeds in the 1985 campaign.

For the first year, only 450 kilos of seeds were distributesd in the village by the Regional Union of Cooperatives, and the S.V. was responsible for recovering the cost at the time of peanut marketing.
Members of the board were present at the village marketing location and seed debts were immediately paid upon the sale by each farmer. The system worked very successfully and repayments reached 100 %.

For the 1986 campaign, in view of the success of the previous year, CNCAS made available a credit to the S.V. for the purchase of seeds, under the condition that 25 % of the cost of seeds must be brought by the S.V., on a special account with CNCAS, prior to the granting of the credit.

Members of CHERIF LO' S.V. were thus able to gather 666 000 F.CFA in April 1986 (often by selling a sheep), which entitles them to receive a credit for the purchase of 25 tons of seeds from SONACOS. Repayment of the Credit will take place along the same system as the previous year.

The S.V. members seem to be satisfied with this first experience. They claim to be sufficiently well organized to avoid bad debts in the future. They intend to continue with the seed credit program next year, if it is available, and would be interested in a similar system for fertilizer. They do not have any more spare cash this year to buy fertilizer, as they clearly consider peanut seeds their first priority.

Cereal seeds are not considered as a problem, since quantities needed are smaller, and can be, either stored from the previous harvest, or purchased on the market. Most farmers have however heard of, or experienced, improved seeds, and would be willing to buy some, if available at a reasonable price.

5. Conclusion

The cooperative movement in Cherif Lo seems to be starting again on new foundations, more sound than the previously existing cooperative system. The ongoing experience in credit for seeds is indeed crucial, as it should demonstrate the sense of responsibility of the new S.V.
If it is successful, the experience could be gradually extended in the future to the distribution of other inputs, such as fertilizers or cereal seeds, and obviously to other S.Vs.

THE PARASTATALS INVOLVED IN INPUT AND GRAIN MARKETING

Since the disengagement policy of the Government, only three parastatals still play an actual or potential role in input or local cereals marketing.

1. The "Commissariat a la Securite alimentaire"

The "Commissariat a la Securite Alimentaire" (CSA) is government agency, with an administrative status. It is responsible for food aid distribution, and for price stabilization on millet, sorghum and local maize. Its price stabilization function consists in purchasing grain at local market places and through cooperatives at the official minimum price (70 FCFA/Kg), thus preventing market prices to fall sharply below that price when the supply from farmers exceeds the demand from traders. CSA's intervention on the grain market had remained very low between 1981 and 19[illegible], as marketable surpluses were well below the potential demand. In 1985/1986, however, due to favourable weather conditions, CSA had to buy 21000 tons, among which 15000 tons through cooperatives. Grains have then been proposed for sale to wholesalers in grain deficit areas (Louga, Saint Louis), at a price of 95 FCFA per kilo. In June 1986, most of the grain purchased still remains with CSA and it is probable that a part of the stock will have to stored until next year.

2. SONACOS

SONACOS is one of the two peanut oil processors in Senegal, with 75 % of total oil production. It is a mixed-economy corporation, with 65 % of the capital held by GOS. Its subsidiary, SONACOS-graines has a monopoly for peanut marketing (with the exception of the area serviced by the other processor, SEIB). Until 19[illegible], purchase activities were subcontracted to cooperatives, then, assumed directly by SONACOS in 1984. In 1985, SONACOS withdrew again from direct purchasing from farmers, using a combined system of licensed buying agents (usually private transport operators) and new cooperatives, through their national union, UNCA. The two types of operators are in competition, although both of them act on behalf of SONACOS, which remains the final buyer and finances the buying campaign.

Since the dissolution of SONAR, SONACOS has, in addition, to take over the marketing of peanut seeds through its extended network of rural storage rooms scattered in the Peanut Basin. In 1986, SONACOS also experienced, on a limited scale, marketing of fertilizers under the USAID subsidy program, it does not wish however to be further involved in such an activity, if other operators can move in the market.

3. SONADIS

SONADIS, a corporation with a commercial status whose capital belongs to the Government of Senegal (90 %) and local banks (10 %), was established in 1965, in order to "distribute basic consumer goods in urban and rural areas".

With a turnover in excess of 20 billion CFA, it ranks as the first distributor in Senegal. It operates wholesale outlets in the major cities of Senegal (two-third of its turnover), and 127 retail outlets in urban and rural areas. Its distribution network covers most important towns in all areas of Senegal and is the only nationwide distribution network for consumer goods. The retail stores are managed by agents paid on a commission basis. Basic foodstuff (rice, sugar, oil, milk) amount for 80 % of its turnover.

SONADIS claims to financially break-even, although the cash situation is often critical, as the company is almost exclusively financed by suppliers' credit and limited overdraft facilities from the banks.

SONADIS is not very active in the marketing of coarse grains, except for limited quantities of imported sorghum during the "hunger" season. It would be willing to market fertilizers if available on a "cash and return" basis.

APPENDIX 4

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LIST OF ACRONYMS USED IN THE REPORT:

CNCAS:	Caisse Nationale de Credit Agricole du Senegal
CPSP:	Caisse de Perequation et de Stabilisation des Prix
CSA:	Commissariat a la Securite Alimentaire
GOS:	Government of Senegal
ICS:	Industries Chimiques du Senegal
ISRA:	Institut Senegalais de Recherches Agricoles
MDR:	Ministere du Developpement Rural
ONCAD:	Office National de Cooperation et d'Assistance au Developpement
NAP:	New Agricultural Policy
RDA:	Regional Development Agency
SAED:	Societe d'Amenagement et d'Exploitation des Terres du Delta et de la Vallee du Senegal et de la Faleme
SENCHIM:	Distribution arm of Senegal fertilizer company, ICS
SODEVA:	Societe de Developpement et de Vulgarisation Agricole
SOMIVAC:	Societe pour la Mise en Valeur de la Casamance
SONACOS:	Societe Nationale de Commercialisation des Oleagineux du Senegal
SONADIS:	Societe Nationale de Distribution
SONAR:	Societe Nationale d'Approvisionnement du Monde Rural
SS:	Service Semencier
SSEPC:	Societe Senegalaise des Engrais et des Produits Chimiques
SV:	Section Villageoise
USAID:	United States Agency for International Development