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SENEGAL
PRIVATE SECTOR SURVEY

THE MANUAL FOR ACTION IN THE PRIVATE SECTOR (MAPS) STUDY

PART II - THE INFORMAL SECTOR

Prepared for:

USAID/Senegal
and
The A.I.D. Africa Bureau of Market Development and Investment
(AFR/MDI)

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Report Prepared by:
The Division of International Affairs
The University of Connecticut
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LABAT-ANDERSON Incorporated (Prime Contractor)



**SENEGAL MAPS
INFORMAL SECTOR SURVEY**

PREFACE

MAPS INFORMAL PRIVATE SECTOR SURVEY -SENEGAL

Many individuals and organizations participated in the data collection, and analysis which went into the production of this report. This is the second of three reports on private sector surveys conducted in Senegal for USAID/Senegal and the A.I.D. Africa Bureau of Market Development and Investment (AFR/MDI) under contract with Labat-Anderson Incorporated. This report deals with data collected on the informal sector. The first report deals with the formal sector and the third, prepared by the National School of Applied Economics (ENEA) in Dakar, deals with the G.I.E. The actual data on the informal sector were collected by Cabinet Aziz Dieye (Coopers and Lybrand) in close collaboration with Richard Vengroff, Dean of International Affairs, the University of Connecticut.

This work was greatly facilitated by extensive input from USAID/Senegal, especially Julius Cole, Mission Director, Gary Nelson, Deputy Mission Director, Terry Myers, PDO, William Hammink, Deputy PDO, Mamadou Kane, Ousmane Ndao, and Mama Ba, all of PDO, and Charbel Zarour, an AID consultant. The staff of LAI in Washington, particularly Peter Leifert and Raymond Malley, the MAPS/Senegal team leader, provided excellent coordination in the field and backstopping in the U.S. Michael Borish of J.E. Austin Associates, a MAPS/Senegal team member, provided useful suggestions and comments on the preliminary draft of this report. Momar N'diaye, a staff member of the Division of International Affairs, the University of Connecticut, provided useful input and support for the data analysis and report preparation stages of this work. I also wish to thank the hundreds of business leaders throughout Senegal who gave freely of their time to participate in the preparatory stages and the formal interviews conducted in the course of this study.

Richard Vengroff,
The University of
Connecticut

Introduction

This survey is the second component of a three part report designed to assist the U.S. Agency for International Development (U.S.A.I.D.) to develop an effective program of assistance to the private sector in Senegal. The first of these surveys examines the status of the formal sector. This section examines the findings for the informal sector and the third survey addresses the needs of the growing number of G.I.E.'s (Groupement d'Interet Economique), a type of grass roots cooperative movement which is increasingly important in Senegal.

Data and Methods

The Survey Instrument

The questionnaire is designed to assess the relative importance of constraints on and opportunities for the business community. It is based on similar instruments used in MAPS exercises in other countries. Input was collected from A.I.D. officials, Senegalese government officials, representatives of the private sector in Senegal, several consultants familiar with the private sector, local training institutions and the firm selected to conduct the survey. It has been adapted to reflect a number of the economic realities which are specific to Senegal. It was further revised and streamlined to shorten the required average interview time to between thirty and forty-five minutes.

The questionnaire is divided into five sections, roughly corresponding to the main concerns of the MAPS exercise. The purpose of Section One is to collect background information on both formal and informal sector firms. Section Two addresses the issues associated with current business performance. Questions in Section Three are designed to identify and prioritize the various resource and public policy constraints which impact on the general business environment. In Section Four, investment and growth opportunities perceived by business leaders are assessed. The value, functions, and performance of professional business associations are the subject of the questions in Section Five.

Multiple translations of the survey instrument were completed and a consensus translation agreed to. This version was then reviewed by a multilingual Senegalese specialist in management, a Ph.D. candidate at the University of Connecticut, who holds an MBA degree from an American university. Final corrections and changes were then made to insure the accuracy of the questions from a technical standpoint. Multiple translations were made in local languages for purpose of interviews with non French speaking business leaders in the informal sector. The final versions of the questionnaire were field tested and modifications made before each was employed for the survey.

The Sample

Since there is no comprehensive list of firms operating in the informal sector in Senegal, simple random sampling is not possible without first conducting a costly census. Therefore, a two stage cluster bloc approach to sampling was employed. First, the sample was stratified on the basis of region. Blocs, corresponding to local markets were then randomly selected in these preselected areas of the country. Once the blocs were chosen, interviewers were charged with selecting a random starting point and using a preassigned set of random digits for counting in a preset direction from the entry point to identify the firms whose "executives" would be interviewed. The final sample consists of 114 informal sector firms.

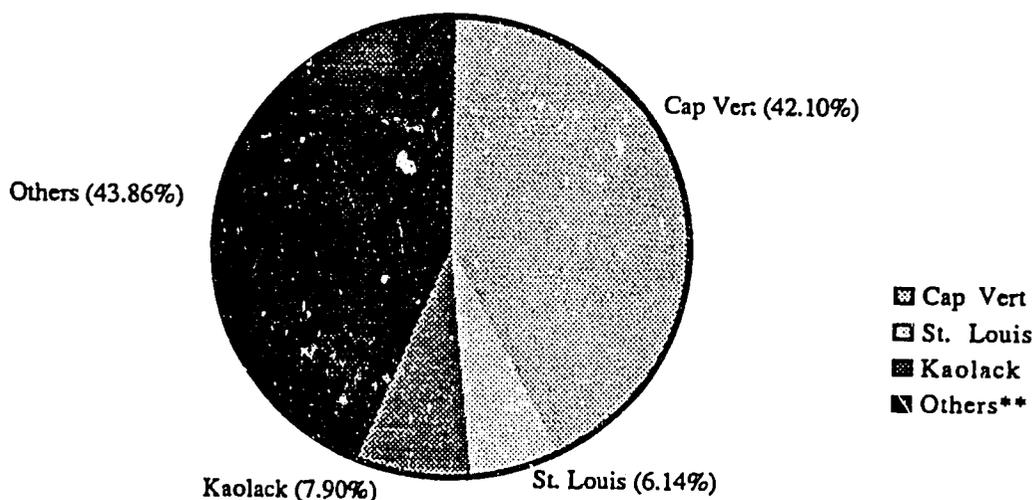
The distribution of firms included in the survey, by city or town (Table One), by sector (Table Two) and by position of the person interviewed (Table Three), are shown below. About one in six (16.2%) of the firms operate in more than one sector. Unlike formal sector firms, which are concentrated in Dakar, informal sector firms are more widely distributed throughout the country. Almost two thirds of the informal sector firms included in our sample are outside Dakar proper. It should also be noted that most of those interviewed in the informal sector survey (86.8%) are the actual owners of their respective enterprises rather than managers employed to operate the business. Furthermore, the overwhelming number of informal sector firms (95.6%) are owned and operated by Senegalese nationals. As expected, there is very little foreign investment in the informal sector.

TABLE ONE

DISTRIBUTION OF INFORMAL SECTOR FIRMS IN THE SAMPLE BY CITY

<u>CITY</u>	<u>n</u>	<u>%</u>
Dakar	41	35.97
Rufisque	7	6.14
St. Louis	7	6.14
Kaolack	9	7.89
Ziguinchor	8	7.02
Thies	2	1.75
Kolda	5	4.39
Louga	6	5.26
Fatick	4	3.51
Diourbel	2	1.75
Tambacounda	3	2.63
Other	20	17.55
Total	114	100.00

Informal Sector Firms in the Sample by Location



* Out of 114 firms, 48 operate in Cap-Vert of which 41 in Dakar alone.

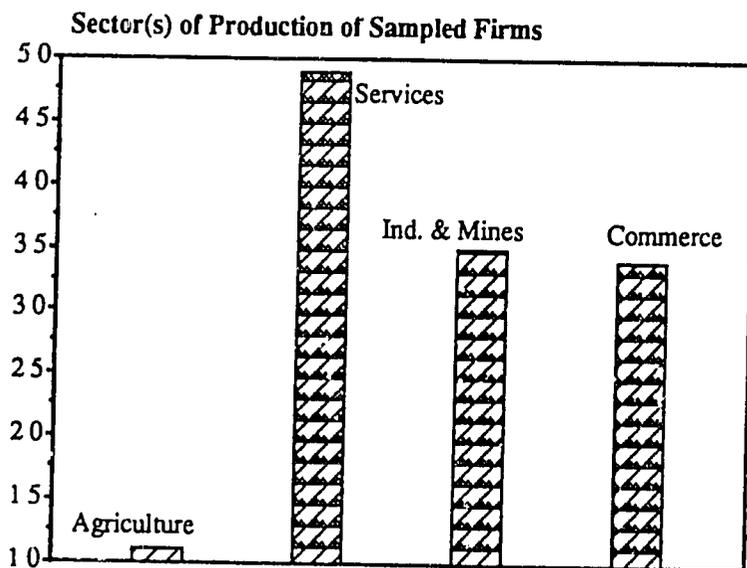
** Includes firms from other major cities such as Ziguinchor (8), Louga (6), Kolda (5), and Thies (2).

TABLE TWO

SECTOR OF PRODUCTION OF FIRMS INCLUDED IN THE SAMPLE

<u>Sector</u>	<u>n</u>	<u>%*</u>
Agriculture (includes forestry, fishing, livestock production and agricultural business)	11	9.9
Services	49	44.1
Industry	35	31.5
Commerce	34	30.6

*The n is greater than 114 because 18 firms operate in two sectors. The % total is greater than 100 because of the 18 firms which operate in more than one sector. Data on three cases are missing.

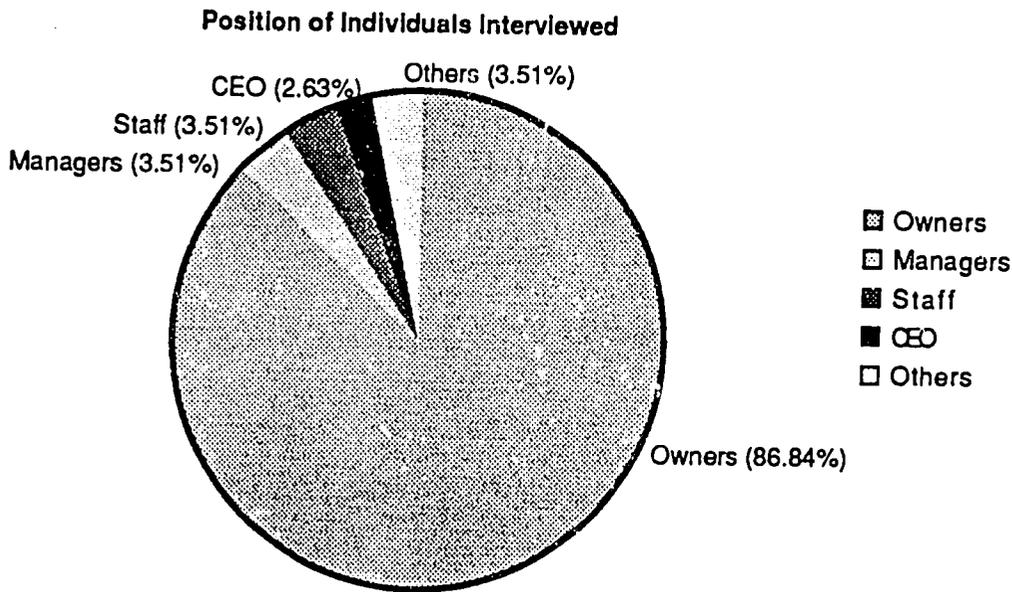


☑ Total exceeds 114 as a number of firms are involved in more than one activity

TABLE THREE

POSITIONS OF INDIVIDUALS INTERVIEWED

<u>POSITION</u>	<u>n</u>	<u>%</u>
Owner	99	86.84
Manager	4	3.51
Staff	4	3.51
President (CEO)	3	2.63
Other	4	3.51
<hr/>		
Total	114	100.00



The Interview Process

An RFP was issued for the work on the survey. Seven organizations responded with full proposals. The firm which won the contract for implementation of the formal sector survey (Cabinet Aziz Dieye, a Coopers and Lybrand affiliate) worked closely with the MAPS team survey coordinator to develop a training program for interviewers. The interviewers recruited were primarily university graduates with prior

training in economics or a related field. These individuals participated in a four day workshop, which included a practicum in which test interviews were conducted. The organization and procedures for the assignment, logistics, reporting, verification, and collection of completed survey instruments were put into place and the data were gathered in the field. All data, after verification, were entered on diskettes using Lotus. These data were, upon arrival in the U.S., transformed into EXCEL and then StatView for purposes of analysis.

Description of Firms

Ownership and Foreign Investment

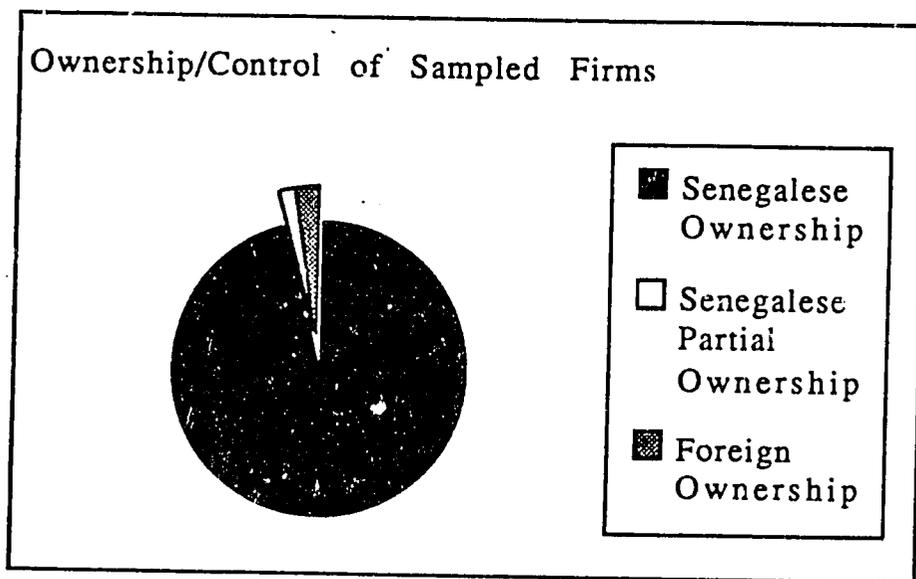
Virtually all of the firms included in the sample are owned and operated by Senegalese nationals. Only five (4.4%) of the 114 interviewees reported that the firms they represented were partially or wholly owned by foreigners. The level of foreign investment in the informal sector is extremely low. The number of foreign owned firms, especially those involved in small scale retail trade, would undoubtedly have been much larger before the recent expulsion of Mauritians and the subsequent "nationalization" of their shops. This sector has been largely filled by Senegalese who are in the process of learning how to operate these businesses in a social environment which makes "cash and carry" type operations difficult. Developing the confidence of and establishing effective relations with wholesalers, many of whom are from the Lebanese community, takes some time but is apparently proceeding well. The importance of the new involvement of Senegalese entrepreneurs in running these grocery shops should not be underestimated. The impact on Senegalese employment has been significant. More important, however, is the change in mindset which has accompanied the transfer. Many Senegalese who previously regarded shopkeeping as beneath their dignity, have developed a healthy respect for small scale retail business.

TABLE FOUR

OWNERSHIP/CONTROL OF FIRMS OPERATING IN SENEGAL
INCLUDED IN THE INFORMAL SECTOR SAMPLE

	<u>n*</u>	<u>Percent</u>
Firms Fully Owned/ Controlled by Nationals	109	95.6
Firms Partially Owned/ Controlled by Foreigners	2	1.8
Firms Fully Owned/ Controlled by Foreigners	3	2.6
Total	<u>114</u>	<u>100.0</u>

*n=number of firms.



Personnel

Informal sector firms are generally very small scale operations, although there are a few which employ as many as one hundred individuals. The average number of permanent employees is less than seven, and in the majority of cases, most of these are family members

and/or apprentices. Opportunities for employment are limited, but broader than they might initially appear to be. The large number of informal sector firms, rather than the total number employed by each, is what creates many opportunities. It should be pointed out, however, that salaries and benefits provided in the informal sector are extremely low. It is virtually impossible for these firms to conform to the existing, very restrictive labor codes and still be able to survive.

Women fare somewhat better in the informal than the formal sector in that they own and manage a number of firms. The balance is still, however, heavily weighted in favor of males. Only 28 per cent of those interviewed reported having permanent female employees in their businesses. Although females serve in management roles in 18 of the 114 firms, the salaries and responsibilities associated with these positions are, except in the case of owner-operators, fairly limited. The real opportunities for women are as owners of small enterprises. However, expansion of the role of females in the informal sector, given their general lack of control over liquid assets, is difficult unless a special mechanism can be established to provide access to credit to them on a preferential basis.

TABLE FIVE

TYPE AND LEVEL OF PERSONNEL

<u>Personnel</u>	<u>ALL</u>			<u>WOMEN</u>		
	<u>mean</u>	<u>Range</u>	<u>n*</u>	<u>mean</u>	<u>Range</u>	<u>n*</u>
Permanent	6.82	1-108	114	2.31	1-9	32
Part Time	1.6	1-4	5	0	---	0
Seasonal	19.67	1-100	9	5	3-8	3
<u>Level</u>						
Mgt./Admin.	1.36	1-10	98	1.22	1-2	18
Secretarial	1.62	1-3	8	1.33	1-2	3
Professional	1.5	1-2	2	2	2-2	1
Technical	4.1	1-20	10	0	---	0
Laborers	8.8	1-106	56	4.12	1-8	8
Other	7.15	1-140	40	2.57	1-8	14

*n is the number of firms.

Markets and Sources of Supplies

The market orientation of informal sector firms is strictly local. They lack the resources and knowledge of markets and marketing channels necessary to operate internationally. All but two of the firms sampled target most of their sales at the local Senegalese market. On average, 97 per cent of the sales of the 114 firms surveyed are in Senegal. Four companies sell some of their goods to EEC countries and five sell some of their products in other West African countries. Three sell a small percentage of their output in other areas of the world.

The same very local orientation holds for sources of supplies and inputs for informal sector businesses. Most such firms receive all of their supplies and inputs on the local market in Senegal. Only ten firms (9%) reported receiving supplies from elsewhere. Of these, five receive significant portions of their supplies from other West African countries and three from the EEC (France).

TABLE SIX

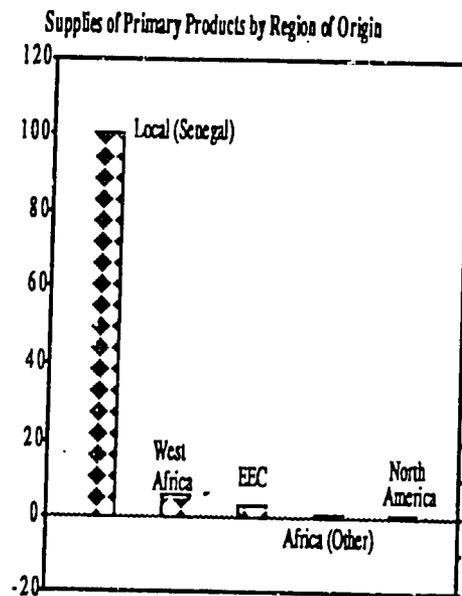
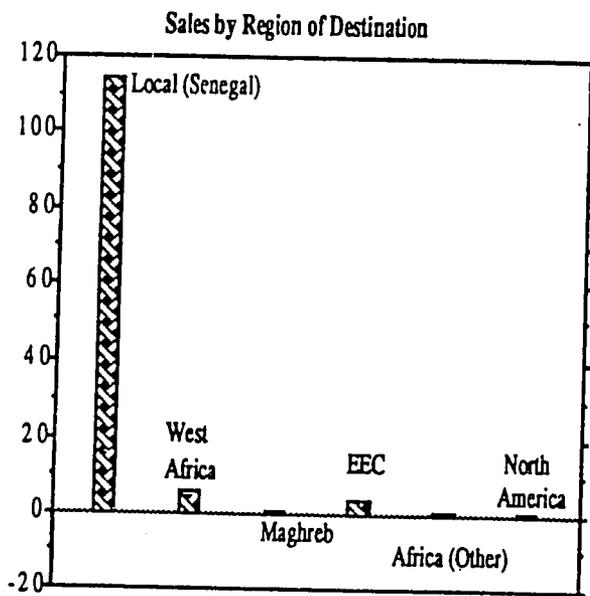
DISTRIBUTION OF SALES BY REGION OF DESTINATION (%)

<u>Region /Area</u>	<u>\bar{X}</u>	<u>Range</u>	<u>n</u>
Local (Senegal)	97.32	1-100	114
West Africa	15.20	2-50	5
Maghreb	02.00	2-2	1
Asia	00.00	---	---
EEC	28.00	2-90	4
Europe (other)	00.00	---	---
Africa (other)	04.00	4-4	1
North America	05.00	5-5	1
Middle East	00.00	---	---
Other	00.00	---	---

TABLE SEVEN

DISTRIBUTION OF SUPPLIES OF PRIMARY PRODUCTS
BY REGION OF ORIGIN (%)

<u>Region /Area</u>	\bar{X}	<u>Range</u>	<u>n</u>
Local (Senegal)	96.7	20-100	100
West Africa	47.0	10-75	5
Maghreb	0.0	---	---
Asia	0.0	---	---
EEC	41.0	3-60	3
Europe (other)	0.0	---	---
Africa (other)	30.0	30-30	1
North America	40.0	40-40	1
Middle East	0.0	---	---
Other	0.0	---	---



☒ Number of sampled firms involved with these markets

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Recent Performance of the Private Sector

The Economic Environment for the Private Sector

As with their counterparts in the formal sector, informal sector business leaders make decisions about investments, planning, diversification, and hiring on the basis of their perceptions of conditions in the economic environment for the private sector. Although the resource decisions they make are small scale, they must be relatively conservative in that few alternative sources of income or venture capital are available to them and their families.

Currently, informal sector business leaders, like their formal sector counterparts, do not perceive the business climate to be very positive. Only about one in ten think that the economic environment during the past year has gotten much better, while more than a third (35.1%) perceive that conditions had in fact gotten much worse. The uncertainty regarding the environment is further underlined by the fact that nearly a third of all of the interviewees said that they did not know whether the environment had improved or not.

When these data are disaggregated by type of activity, it is clear that those involved in the commerce and service areas are very dissatisfied with recent trends in the economic environment. In the commerce area, only sixteen per cent of the interviewees feel that conditions have gotten even slightly better, while forty-four per cent said that things had gotten much worse. In the service area, about a third feel that conditions are getting better, but forty two per cent feel that they are getting much worse. In the industry and agricultural groups, on the other hand, more than half feel that economic conditions are getting better. The commerce and service areas are probably the most likely to feel the immediate effects of an economic downturn. They also represent the largest share of the informal sector firms and thus reflect the general malaise in the sector.

TABLE EIGHT

RECENT TRENDS IN THE ECONOMIC ENVIRONMENT
IN SENEGAL FOR THE PRIVATE SECTOR (%)

<u>Sector</u>	<u>Much Better</u>	<u>Somewhat Better</u>	<u>Unchanged</u>	<u>Much Worse</u>	<u>n*</u>
Commerce	0	16	40	44	25
Industry	16.7	38.9	22.2	22.2	18
Agriculture	20	40	20	20	10
Services	9.1	24.2	24.2	42.4	33
All	10.4	28.6	26.0	35.1	77

*Thirty six respondents said that they did not know. Totals by sector are greater than the overall total because some firms are involved in more than one sector.

TABLE NINE

FACTORS WHICH HAVE INFLUENCED THE PERFORMANCE
OF YOUR ENTERPRISE IN THE PAST YEAR

<u>Factor</u>	<u>% Positive</u>	<u>% Neutral</u>	<u>% Negative</u>	<u>% DK.</u>	<u>Rank*</u>
Taxes	0.88	43.86	46.49	8.77	1
Credit guarantees	6.14	28.07	42.98	22.81	2
Government Action**	14.91	38.60	37.72	08.77	3
Credit Availability	15.79	21.93	34.21	28.07	4
Interest Rates	0.00	56.14	24.56	19.30	5
Producer Prices	11.50	54.87	12.39	21.24	6
Preferential Taxes	0.88	78.07	8.77	12.28	7
Exchange Rate	1.75	68.42	5.26	24.56	8

*Ranks are from the most negative to least negative impact (1-8)

**Policy and regulations.

When asked about the factors which had influenced the performance of their respective businesses in the last year, taxes, credit related issues and government actions (policy and regulation) were identified as most important. All three were seen by very significant pluralities of interviewees as having a negative impact. Exchange rates, preferential taxes and producer prices were generally regarded as having no real impact. The fact that producer prices are not a real issue provides the basis for some degree of optimism if other constraints can be eliminated or at least have their impact decreased.

Trends in Volume of Sales

The reaction of business leaders in the informal sector to the economic environment is consistent with their views regarding trends in the volume of sales during the past year. Nearly half (48.5%) indicated that they had experienced a decline or a sharp decline in sales during this period (see Table Ten). This mirrors the findings for the formal sector and is indicative of the poor state of the economy and the general environment for the private sector. However, more than a third (36%) said that sales had improved or strongly improved during the past year. This is significantly higher than the twenty percent of the formal sector firms which experienced improved sales during the same period.

TABLE TEN

TRENDS IN VOLUME OF SALES DURING THE PAST YEAR AND PROJECTIONS FOR NEXT YEAR (%)

	<u>Strong</u> <u>Improvement</u>	<u>Improvement</u>	<u>Stable</u>	<u>Decline</u>	<u>Sharp</u> <u>Decline</u>	<u>DK</u>	<u>n</u>
Past Year	6.14	29.82	15.79	32.46	14.04	1.75	114
Next Year	7.89	26.32	16.67	22.81	1.75	24.56	114

Projections for next year's sales are not significantly different from those for the past year in terms of expected improvement. Only about a third expect conditions to improve, roughly the same percent of interviewees who said conditions got better in the past year. While those who expect a decline next year decrease to about a quarter of the firms, those who said they did not know or were otherwise uncertain increased to a quarter of the sample. Those in the informal sector appear, in general, to be either less willing to speculate about the future, or less well informed and thus unable to make a judgement than are their counterparts in the formal sector. As a group, their ability to plan for future investments is therefore quite limited.

Competition from other Senegalese firms is regarded as the major influence on the volume of sales. This may actually reflect healthy competition in the marketplace and/or the relatively small size of the market. In the case of firms involved in industry or production, distance from markets and competition from foreign firms are the most important factors which limit sales, while local competition ranks quite low as a constraint. In the more liberalized environment for imports, this situation may get even worse. Those in the agricultural production and distribution area also rate foreign competition as a major constraint on the volume of sales, but unlike the results for industry, local competition is considered to be more important.

TABLE ELEVEN

RANKING OF FACTORS HAVING AN INFLUENCE
ON THE VOLUME OF SALES BY SECTOR*

<u>Factor</u>	<u>Sector</u>				
	<u>All</u>	<u>Commerce</u>	<u>Industry</u>	<u>Agriculture</u>	<u>Services</u>
Competition Senegalese Firms	1	1	4	1	1
Distance from Markets	2	2	1	2	2
Competition Foreign Firms	3	3	2	3.5	3
Road Transport.	4	6	3	5.5	4
Competition from Public Enterprises	5	4	5	3.5	5

*Rankings are from most (1) to least negative impact. Of the ten factors, only those ranking in the top five and showing a consensus negative impact for at least one sector are shown.

Availability and cost of Resources

Many firms in the informal sector operate very close to the margin. Therefore, the availability, price and reliability of the inputs on which they depend are critical to their survival. If they are to grow and prosper, constraints on the input side must be addressed. The Government of Senegal and the donor community must first identify and then help to minimize the impact of various obstacles to increased production which affect the informal sector.

Leaders in the informal sector were presented with a list of twenty factors which might potentially either contribute to or inhibit their operations. They were asked to indicate the effect, positive or negative, of each on their own businesses. From their perspective, the most fundamental problems they face are the price (and quality) of electricity and primary materials, access to credit, and land tenure issues. Electricity costs are extremely high and take a significant bite out of the profits of businesses in both the formal and informal sectors. The lack of credit is also quite significant in the informal sector. Even relatively small loans are not available through normal banking channels.

A major difference between the formal and informal sectors appears in the area of land availability and land tenure. The percentage of business leaders in the informal sector identifying this as a problem or constraint is much higher than that for formal sector firms. These individuals rely on access to market stalls and/or land or buildings where production can take place, but are unwilling to make investments in expanding their production because of uncertainties regarding their access to additional land and the security of land tenure.

TABLE TWELVE

THE PERCEIVED EFFECT OF VARIOUS FACTORS ON
PRODUCTION OF GOODS AND SERVICES (%)

<u>Factor</u>	<u>Impact</u>			
	<u>Positive</u>	<u>Neutra</u>	<u>Negative</u>	<u>DK</u>
Price of Electricity	5.26	33.33	50.88	10.53
Prices for Primary Materials	25.44	21.05	48.25	5.26
Access to Credit	24.56	22.81	45.61	7.02
Availability of Land	12.28	37.72	41.23	8.77
Uncertainty Regarding Land Tenure	22.81	29.82	38.60	8.77
Reliability of Electric.	20.18	35.96	35.09	8.77
Access to Land	23.01	34.51	34.51	7.96
Security of Buildings	49.12	16.67	30.70	3.51
Availability of Buildings	51.75	19.30	28.07	0.88
Price of Transport	17.54	47.37	27.19	7.89
Access to Primary Products	55.26	12.28	25.44	7.02
Price of Telephone	6.14	51.75	21.93	20.18
Cost of Land	26.32	33.33	21.9	18.42
Price of Water	9.65	57.89	20.18	12.28
Access to Transport	25.66	47.79	19.47	7.08
Access to Electricity	29.82	44.74	15.79	9.65
Access to Water	30.70	51.75	7.02	10.53
Availability of Skilled Labor	53.98	31.86	7.08	6.19
Telephone Reliability	20.18	51.75	5.26	22.81
Quality of Water	39.47	44.74	3.51	12.28

TABLE THIRTEEN
THE PERCEIVED EFFECT OF VARIOUS FACTORS ON
PRODUCTION OF GOODS AND SERVICES BY SECTOR (RANKS)*

<u>Factor</u>	<u>Sector</u>				
	<u>Commerce</u>	<u>Indust/Mines</u>	<u>Agriculture</u>	<u>Services</u>	<u>All</u>
Price-Electricity	1	1	6.5	2	1
Availability-Land	5	3	3.5	3	2
Prices for Primary Materials	5	2	18.5	4	3
Access to Credit	11	4	1	10.5	4
Price-Telephone	8.5	8	14	6.5	5
Uncertainty of Land Tenure	13	5	14	6.5	6
Reliability-Elect.	8.5	6	14	9.5	7
Access to Land	13	7	14	5	8
Price of Water	2.5	9	6.5	8	9
Price-Transport	2.5	10	3.5	11	10
Cost of Land	5	14	3.5	12	11
Access-Transport	13	11	9	13	12
Access to Electr.	8.5	13	9	18	13
Securit-Buildings	15	12	3.5	14	14
Telephone Reliab.	8.5	18	14	15	15
Availability of Buildings	16	15	14	16	16
Access to Water	18.5	16	9	17	17
Access to Primary Products	17	17	-18.5	1	18
Quality of Water	18.5	20	14	19	19
Availability of Skilled Labor	20	19	20	20	20

*Rankings are from most (1) to least negative impact.

Sources of Credit

The general lack of credit available for the private sector continues to be a major problem. It is even a greater problem for informal sector firms than for the formal sector. Very few of these firms receive any form of credit in the formal financial system. Of the 114 firms included in our sample, none received loans from commercial banks and only one reported receiving support from a development bank. The extensive documentation required, the time, knowledge, and expense associated with the preparation of loan applications, the collateral demanded, and the lack of success of others in obtaining credit all serve to discourage small businesses from even applying for loans.

Almost all of these firms rely on informal lending mechanisms. Interest rates charged by money lenders can be quite high but are often the only possibility open to the small scale entrepreneur. Local salary pools and private lotteries are a major source of credit in the informal sector. One frequently cited source which is also important in the formal sector is the consignment of goods by wholesalers or distributors. Even this, however, affects only a small number of firms.

Most investments in these operations seem to come from personal sources of funds, from friends and relatives and from groups which make contributions which are assigned to members in turn. If these firms are to grow and create additional employment opportunities, some possibility to obtain credit is essential. As will be seen in the discussion which follows, the limited availability of credit is viewed as the most important obstacle to growth of the private sector by entrepreneurs in the informal sector.

TABLE FOURTEEN

SOURCES OF CAPITAL FOR SENEGALESE ENTERPRISES
IN THE INFORMAL SECTOR (n)

Source	1-20%	21-50%*	≥50%	Sector*			
				C	I	A	S
Local Commercial							
Banks	0	0	0	0	0	0	0
Development Banks	0	1	0	0	0	1	0
Informal Institutions	0	0	0	0	0	0	0
External Sources	4	0	0	2	0	1	2
Transfers from							
Abroad	2	0	0	1	0	0	1
Cooperatives	2	0	0	2	0	1	0
Family/Friends	3	4	0	2	0	2	3
Consignments	8	7	0	5	6	3	4
Group Contributions	7	0	0	4	2	0	1
Credit from Unions	5	0	0	1	3	1	1
Other	3	4	8	4	2	2	7
n**	34	16	8	21	13	11	18

*Sector groups are C=Commerce, I=Industry and Mines, A=Agriculture, S=Services. Totals by sector may be greater than totals because of involvement by some firms in more than one sector.

**Overall only 58 firms reported their different sources of capital.

Obstacles to Growth of the Private Sector

The reform efforts of the Senegalese Government in the area of privatization and private sector development have largely been targeted at the formal sector. Some would suggest that the current vitality of the non-formal sector can be, at least in part, attributed to the fact that small businesses have been left pretty much on their own. This applies more generally at the macro level, but at the micro level these individuals are subject to a whole range of official and "unofficial" regulations and controls. While these firms fill vital needs in the economy, their current

role could probably be greatly expanded if some of the major problems that they face were either decreased in importance or eliminated.

The same six major problem areas identified for firms in the formal sector are also prominent problems for the informal sector, although to different degrees and in a very different order of priority. Forty five potential problems were identified and the interviewees were asked to rate the importance of each of them as an obstacle to growth of the private sector, particularly to firms like their own. The findings are grouped in six major areas: credit, government policy making, policy implementation, information/uncertainty, human resources, and costs. Each of these is discussed in turn below. The distribution and ranking of responses are presented in Table Fifteen.

Credit

The lack of credit available to small firms appears to be the main obstacle to growth from the perspective of entrepreneurs in the informal sector. This issue ranked very high in importance for the formal sector as well, but the problem is even more acute for small businesses. As discussed above, very few of the firms included in the survey had received any form of bank loans. Access to credit was rated as important or very important as an obstacle to the private sector by more than four out of five of the interviewees. When the sample is disaggregated by sector, the results are uniform. Access to credit ranked first in importance for three of the four areas and second for the fourth (services). Guarantees demanded for credit and the extensive documentation required in the preparation of loan applications are also among the most important constraints across the board. The small staff and very limited training of informal sector business leaders in dealing with the types of studies and documents required make it necessary to engage consultants to do this work. The costs associated with such an effort are well beyond the means of most small businesses in Senegal. In addition, those individuals who have invested in putting together such documentation for loan applications have not had much success.

Given past experience, it is doubtful that the coming reorganization of the banking system will alleviate problems for small businesses. Several projects financed by the donor community are attempting to address these issues. Results to this point have been mixed and the Government's ability to take over even the successful operations remains

in doubt. Many small scale enterprises have transformed themselves into G.I.E.s, a form of local, private cooperative, in order to benefit from the possibility of obtaining credit (the third of the Surveys undertaken as part of the MAPS exercise examines the G.I.E.s).

Policy Making and Implementation

The policy making process in Senegal is not generally a consultative one in which the private sector is perceived as playing a significant role. This is especially true for the small firms represented in the informal sector. More than two thirds of the interviewees feel that the lack of consultation with the private sector by Government policy makers is a major obstacle to growth in this sector. Among the forty five problems cited, the lack of Government consultation was ranked fourth in overall importance and among the top issues for all four sub groups.

The view by informal sector managers of problems in the policy area tend to be much more focused on the micro level than on the broader policy issues with which formal sector firms are most concerned. The NPI and NPA remain as poorly understood, distant policies whose impact on day to day business operations is very unclear. The most important problem in the policy area, as perceived by managers of small businesses, is the implementation inequities associated with the "special" treatment accorded to certain individuals. Nearly two thirds of the interviewees identified this as an important or very important problem, making it the third most important problem they face as a group.

A number of small businesses have been set up by politicians who act as "silent" partners. These businesses are frequently managed by their close relatives. Well placed individuals regularly use their positions to alter the implementation of government regulations or to provide access to resources and markets. Family connections and other close relations with either politicians or government functionaries are viewed as providing the opportunity to function profitably in an environment in which the application of regulations can be capricious. Given the gray areas associated with the operations of the informal sector, and the opportunities this presents to some functionaries, the importance attributed to such "special" treatment is not at all surprising.

The only other policy problems that seem to effect the informal sector to a considerable extent are the number of ministries involved in regulating the private sector and the general lack of coordination

between them. This duplication often increases the risk of exploitation by unethical officials. The regulatory environment is difficult enough to negotiate without the duplication and often contradictory directives which different Ministries and services try to implement in relation to the private sector.

The Role of Government Functionaries

If the private sector is to flourish and grow in Senegal, a spirit of confidence and cooperation between government officials and entrepreneurs must develop. As noted in the formal sector report, the training, orientation and experience of most government functionaries is not consistent with liberalized economic policies which place the private sector in the lead in terms of national development policy. Government is perceived as serving to protect the population from exploitation by greedy, unethical entrepreneurs. Most functionaries have little understanding of the functioning of the private sector or of a market economy. This is especially true of the middle and lower level officials with whom the informal sector firms are in daily contact.

From the perspective of lower level government officials, small enterprises are fair game for venting their frustrations regarding the state of the economy, their ideological beliefs and their personal financial problems. It is quite significant that nearly half of the operators of small firms identified the payment of "illegal" taxes to functionaries as a major obstacle to the operation of their businesses. Although this form of corruption can sometimes be useful in avoiding or circumventing unworkable regulations, in most cases it seems to serve primarily as a subsidy to the salaries of avaricious officials. The payment of these "fees" can represent an important percentage of the overall operating expenses of small businesses and severely affect profits and investment. It makes the personal connections already mentioned even more important.

Government functionaries are perceived as having negative attitudes toward the private sector, little understanding of its role and functioning, and of being poorly motivated in the execution of their jobs. Work habits are considered to be very poor. Difficulties in finding functionaries in their offices during regular working hours and the slow pace at which they work are frequently cited problems. The implications of these issues transcend the existing private sector. With a decrease in

the size of the public service imminent, many functionaries will be given the opportunity to leave the government and open their own businesses. The most creative and entrepreneurial in spirit are also the most likely to take this option. The result may be that those least tuned in to the needs of the private sector, those who are least productive on the job, and those who profit the most from corrupt practices are likely to remain in the civil service. Thus, at least in the short run, relations between small enterprise and government functionaries may get worse rather than better.

Human Resources

Human resource problems, although very different from those of the formal sector, appear to be of some importance in the informal sector as well. The lack of skilled workers, a factor which ranked very low as a problem for the formal sector, is somewhat more important in the informal sector (ninth overall compared to fortieth for the formal sector). The main problem here is that the wages and benefits (if any) provided in the informal sector are very unattractive to anyone who has any formal education or training in an important skill area. Thus, the informal firms rely very heavily for labor on relatives, and young males, primarily dropouts, with little if any formal schooling or training. Many of the laborers in these firms, rather than being skilled craftsmen, are basically apprentices who work under the supervision of the owner.

In addition, most of these firms operate outside of the formal labor code and are not effected by union activity. The workers they employ therefore tend to be relatively more productive and willing to work longer hours at lower rates of pay. Because of their lack of formal education, they have few alternative possibilities for employment and have not been "spoiled" by the education system which places a low premium on physical labor.

TABLE FIFTEEN

OBSTACLES TO GROWTH OF THE PRIVATE SECTOR IN SENEGAL
WHICH AFFECT YOUR BUSINESS AND OTHERS LIKE IT
(%OVERALL AND RANK BY SECTOR)

<u>Obstacle</u>	<u>%Very*</u>	<u>%</u>	<u>all</u>	<u>Rank by Sector**</u>			
	<u>Important</u>	<u>Important</u>		<u>C</u>	<u>I</u>	<u>A</u>	<u>S</u>
CREDIT							
Access to credit	58	24	1	1	1	1	2
Required guarantees for credit are too high	46	25	2	3	4	4	1
Too much documentation required for credit	30	39	6	21	12	8	3
Ceiling on credit	25	29	11	19.5	20	10.5	7
POLICY MAKING AND IMPLEMENTATION							
"Special" treatment to certain individuals	36	27	3	11	3	2	4
Lack of Govt. consult. with Private Sector on new regulations	38	31	4	5.5	5	5.5	8
Too many ministries involved in regulating the private sector	18	32	7	9.5	8	18	5
Lack of coordination between Ministries regulating priv. sect.	21	24	13	8	15	5.5	14
Lack of incentives in the investment code	11	18	14	5.5	22	43.5	18
NPI measures not well implemented	13	17	17.5	27	13	10.5	23
Lack of rigor in NPI implementation	8	20	20	26	10	10.5	35
Lack of coordination between NPA and NPI	9	10	21	28	23.5	22	16
Long delay in customs	15	19	23	14	37	28	21

Inequities-application of customs duties	17	18	24	17	28	28	20
TVA too high	18	8	25	24	25.5	38	25
Constraints-"Economic Control"	13	22	31	18	40	26	33
TVA misapplied	10	11	32	32	23.5	39	34
SMIG too high	6	8	43	41	39	43.5	43
Functioning of the "Guichet Unique"	3	4	40	39.5	25.5	33.5	36
FUNCTIONARIES							
Payment of "illegal" tax to functionaries	32	14	5	2	6	3	9
Negative attitudes of Govt. to Private Sect.	35	23	9	12	7	7	13
Functionaries lack motivation	24	36	10	19.5	11	13	10
Misunderstanding Priv. Sect. by Functionaries	18	36	15	13	16	22	19
Lack of recognition of role of entrepreneur	16	38	17.5	15	19	16	22
Costs linked to payment of overtime	3	3	44	45	45	43.5	44
COSTS							
High cost of new technology	28	30	12	9.5	9	10.5	11
Availability of spare parts	20	21	26	34	30	14	12
Lack of protection for local products	11	13	37	35	38	15	40
High cost of sea trans.	7	7	42	42	36	40	38
HUMAN RESOURCES							
Lack of qualified managers	18	29	27	25	21	36.5	29
Lack skilled workers	26	20	30	38	34	31	17
Lack of technical qualifications on the local market	15	22	33	30	41	30	26

Low Productivity of Senegalese Labor	9	28	34	29	43	36.5	30
Lack of flexibility in Labor Code	8	11	35	33	42	22	32
Graduates lack spirit of competition	9	12	36	37	35	28	37
Graduates lack practical experience	7	14	38	39.5	33	33.5	42
Problems with unions	4	11	39	36	31.5	41	41
Procedures for dealing with labor disputes	4	11	41	43	31.5	43.5	39
High cost of hiring	3	5	45	44	44	22	45
INFORMATION/ UNCERTAINTY							
Lack of dynamism in Chamber of Commerce	22	17	8	4	2	33.5	6
Rapid, unpredictable changes in regulations affecting private sect.	16	34	16	22	17	17	15
Uncertainty about business practices	25	22	19	7	29	19	28
Lack of usable info. on economic situation	14	38	22	16	27	22	24
Lack useful info. on external demand for Senegalese products	13	23	28.5	23	14	33.5	31
Lack of access to data available to certain research institutions	10	24	28.5	31	18	25	27

*All percentages are for the entire sample.

**Ranks go from most important problem (1) to least important problem (45). Ranks are determined by the overall mean score on each item.

Information and Uncertainty

The lack of information and the high degree of uncertainty in the economic and regulatory environment act as major constraints on business for the formal sector. The perceived impact on the informal sector is much more limited. The perspective of the managers of informal sector firms is much more oriented to the micro-level, much less investment oriented, more short run in terms of planning, and often unlikely to identify the connection between major policy changes and their own day to day operations.

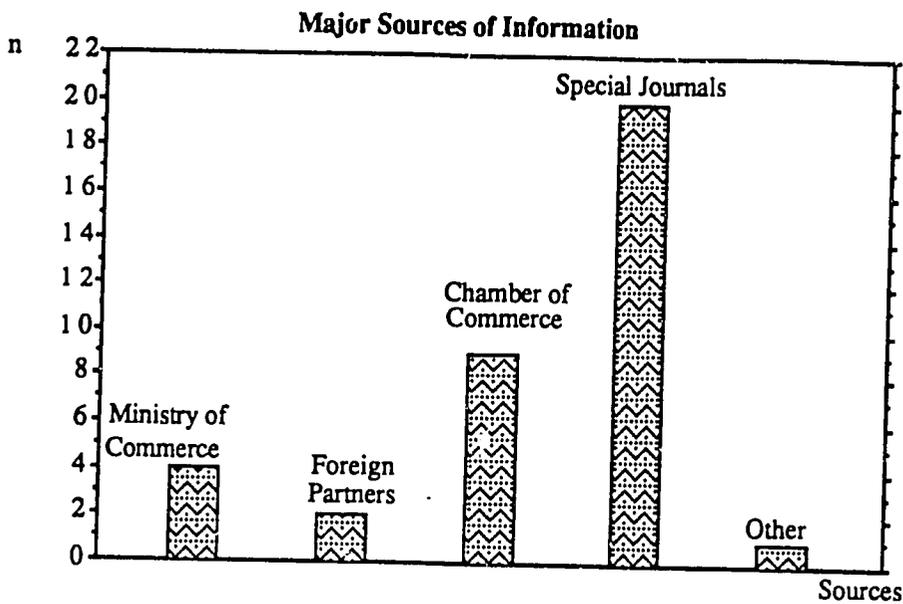
About half of the informal sector managers are concerned about the rapidity and unpredictability of changes in government regulations affecting the private sector. Whereas more than three out of four formal sector managers perceive this to be an important constraint and many (42% of the total) feel it is a very important constraint, the comparable figures for informal sector managers are half and sixteen percent. The same holds true for perceptions of the importance of the lack of information on the state of the economy.

The information sources on which informal sector managers rely are very limited. The extremely poor performance of the Chamber of Commerce in performing this function was widely noted. In fact, only a small minority of those interviewed were able to identify any sources of information on the state of the economy, prospects for business, government regulations, and other relevant information which they regularly consult. Instead, they are tuned in to very informal information channels, primarily face to face conversations, gossip and rumors.

TABLE SIXTEEN
MAJOR SOURCES OF INFORMATION

<u>Source of Information</u>	<u>n*</u>
Ministry of Commerce	4
"Guichet Unique"	0
Foreign Partners	2
Chamber of Commerce	9
"Patronat" (Employers Association)	0
Special Commercial Journals	20
Other	1

*Several interviewees cited more than one source of information.



■ n represents the number of firms using these sources for informa...

In the informal sector, managers are very much aware that they require information on government activities and new regulations. However, their real concerns are for the direct effects of policy changes on their interactions with functionaries. Since there is often a considerable time lag involved before implementation and few real changes in the degree to which their firms are likely to be subject to "informal" taxes, the informal information channels are probably the most reliable and relevant for them.

Opportunities

Even though the current economic conditions in Senegal do not appear to favor investment or expansion, there are still significant opportunities, especially in the informal sector, to take advantage of the situation. With the liberalization of the economy, new "niches" appear into which enterprising individuals can move. The opportunity to improve the performance of their existing businesses may also present itself.

Actions to Improve Their Business

The interviewees were given the opportunity to choose from a list of activities designed to potentially improve their businesses, those that, given the time and financial resources, they thought that they personally might undertake. The most frequently cited action involves increased capital investments. Given the lack of available credit, this is not at all surprising. This is closely followed by improved production techniques and the need to purchase land and or buildings. Both of these are also associated with the availability of capital.

There are a few significant differences in these rankings between firms involved in different types of activities. For those involved in commerce, the training of staff ranks as most important, followed by the purchase of land and buildings. This reflects the difficulty of these enterprises in finding good staff who are willing to work for low wages in a sector which currently provides very little training for apprentices. For those in agriculture, improving the quality of their products is ranked as the most important type of improvement. This is rated no higher than sixth as a priority by the other three groups considered. It is noteworthy that none of the possible improvements suggested received overwhelming support from the firms included in the sample. Thus, any programs designed to provide assistance in these areas should be carefully examined before implementation.

TABLE SEVENTEEN

RANKING OF POSSIBLE ACTIONS TO IMPROVE THE FUNCTIONING OF THEIR ENTERPRISE

<u>Action</u>	<u>Overall</u>	<u>Rank by Sector*</u>				
	<u>%Very Likely</u>	<u>All</u>	<u>C</u>	<u>I</u>	<u>A</u>	<u>S</u>
Capital investments	53	1	5	1	2	1
Improved production techniques	49	2	4	2	3	2
Buy land or buildings	45	3	2	4	4.5	3
Improve my own aptitude in management	38	4	3	3	6	4
Training of staff	34	5	1	5	4.5	5
Improve Marketing	31	6	6.5	7	7	7
Improve quality control	30	7	6.5	6	1	6

*Actions are ranked from 1, most likely, to 7, least likely on the list.
C=commerce, I=industry, A=agricultural and agricultural business,
S=service.

Future Investment Opportunities

The perspective of business leaders in the informal sector on the value of future investments is an important indicator of their sense of the direction the economy is likely to take and their overall confidence in various sectors. Given the difficulties in obtaining capital, it is expected that only those investment opportunities deemed to be excellent will be even remotely considered as possible targets for actual investment.

Commerce, construction and the resale of agricultural products on the local market rank at the top of the list of perceived opportunities. In terms of production related activities, the local market is the target of preference for the transformation and resale of agricultural products and industrial production. The only area with an international component which is considered as a relatively positive investment opportunity is tourism. The informal sector is committed to providing local goods and services to meet expressed needs, rather than expansion into more diverse markets.

TABLE EIGHTEEN

FUTURE INVESTMENT OPPORTUNITIES EXPECTED PROFITABILITY

<u>Investment</u>	<u>Overall</u> <u>%Excellent</u>	<u>Rank by Sector*</u>				
		<u>All</u>	<u>C</u>	<u>I</u>	<u>A</u>	<u>S</u>
Commerce	50	1	2	5	7	1
Construction	46	2	3	2.5	8	2
Re-sale of Agricultural products on local market	46	3	4	1	1.5	3
Industrial production for the local market	36	4	7	2.5	1.5	5
Transformation of Agricult. products for resale on local market	37	5	1	4	9	4
Tourism	40	6	5	6	3.5	6
Re-sale of Agricultural products on international market	33	7	6	7	3.5	8
Transformation of Agricult. products for resale on the international market	26	8	8	9	5.5	7
Industrial production for the international market	28	9	9	8	5.5	9
Banking	25	10	10	10	10	10

*Investments are ranked from 1, most likely to be profitable, to 10, least likely on the list to be profitable. Rankings are based on the overall distribution of responses.

C=commerce, I=industry and mines, A=agricultural and agricultural business, S=service.

Investment in Agriculture

The agricultural orientation of the Senegalese economy and the movement of former functionaries into the private sector makes perceptions of the utility of investments in various agricultural commodities quite important. Like their counterparts in the formal sector, informal sector business leaders place rice and horticultural products (fruit and vegetables), at the top of their lists. Rice, in spite of the low profit margin, is the major staple in the cities, and an important base for almost any other sort of commerce in food products. Fruit and vegetable production is at the heart of the growth of market gardening, an area of production which has grown significantly in recent years.

The number of interviewees mentioning cowpeas and maize as products worth investing in may indicate that there is a growing internal market for these products. Livestock along with peanuts rated just below these products. Privatization of peanut production may be at the base of optimism in an area, the prospects for which are otherwise dismal. Alternatively, the decline in peanut prices for producers, may make the purchase and distribution in small quantities on the local market more attractive.

TABLE NINETEEN

AGRICULTURAL PRODUCTS DEEMED MOST WORTHY OF INVESTING IN

<u>Product</u>	<u>n*</u>
rice	85
fruit and vegetables	84
cowpeas	81
maize	75
peanuts	73
livestock	73
sugar	64
cotton	59
aquiculture	26
other	17

*Many interviewees named more than one product worth investing in.

Profitability of Foreign Markets

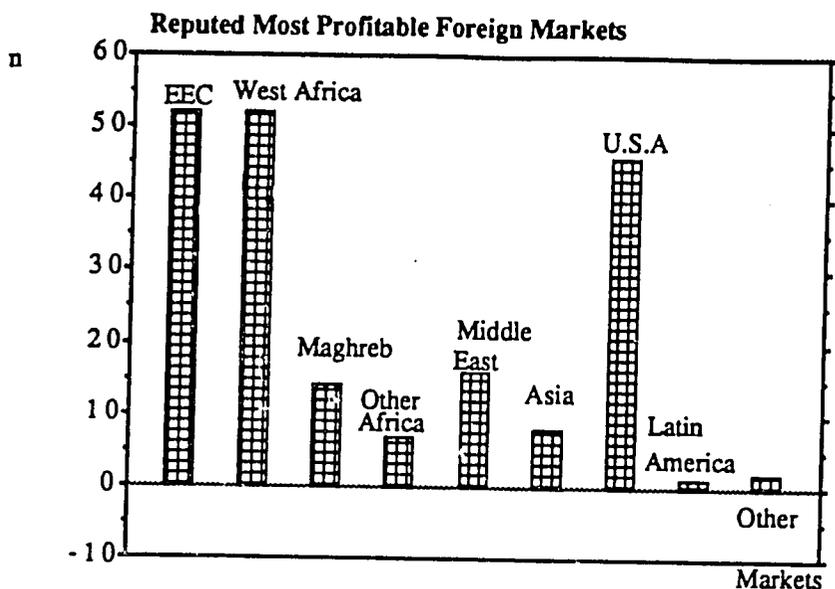
Even though most informal sector firms have no involvement with international markets, many were willing to openly express their opinions regarding the profitability of various markets. As expected, their views are not significantly different from those of managers in the formal sector. The EEC and other West African countries are considered to have the most potential for local firms in Senegal. The U.S. was also rated relatively high as a possible source of profits. However, the possibility of informal sector firms entering any of these markets remains remote.

TABLE TWENTY

REPUTED MOST PROFITABLE OR POTENTIALLY PROFITABLE FOREIGN MARKETS

<u>Market</u>	<u>n*</u>
EEC	52
West Africa	52
U.S.A.	46
Middle East	16
Maghreb	14
Asia	8
Other Africa	7
Latin America	1
Other	2

*Many interviewees named more than one region as a potentially profitable market.



■ n represents the number of foreign markets referred to by the respondents

Associations

Only a relatively small percentage (25.7%) of the owners/operators of informal sector firms hold memberships in associations of small businesses. The comparable figure for the formal sector is much higher (67%). If the general interests of small businesses operating in the informal sector are to be served, they require some type of representation or an organizational base. The low level of revenue of informal sector firms insures that the amount of money they will be willing or able to contribute to such memberships is likely to be very limited. The Government supported Chamber of Commerce is rated as a very poor performer by those in the informal sector and therefore does not present a viable alternative.

Informal sector firms do have specific concerns that would make an organization which addressed these quite attractive to them. Consistent with the problems/constraints identified by informal sector owner-operators, these individuals are looking for an organization which can help them gain access to credit. Such an association could serve to provide assistance in loan application preparation and act as the guarantor of these loans. This priority role for a small business association is shared by business people in all sectors except those involved primarily in commerce. For them, contact and dialogue with the

government and information on government regulations are of primary importance.

The government liaison and information role ranks in importance just below access to credit in the sample overall. Approximately seventy percent of the interviewees regard the government liaison/information role for associations to be very important to them. It is not entirely clear to these individuals how this function will be performed, but it clearly reflects the desire to escape from the conditions of uncertainty which plague private firms in both the formal and informal sectors.

More than half of the interviewees rated each of the seven services as very important activities for associations to be involved in. This may reflect the relative isolation of these individuals, the lack of existing associations, and the general sense that assistance would be helpful and profitable. Support for an association based strategy to strengthen the "informal" firms in the private sector in Senegal appears to be indicated.

TABLE TWENTY-ONE
FACTORS OF IMPORTANCE IN AFFILIATIONS WITH
PROFESSIONAL ASSOCIATIONS

Factor	Overall	Rank by Sector*				
	%very important	All	C	I	A	S
Possible access to credit	83	1	4	1	1	1
Contacts and dialogue with the Government	70	2	1	2	7	4
Ability to provide information on govt. regulations	69	3	2	3	3	3
Ability to provide info. on markets	63	4	3	4	4	5
Technical assistance	58	5	7	5	2	2
Training programs	57	6	5	6	5	6
Capacity to conduct feasibility studies	50	7	6	7	6	7

*Factors are ranked from 1, most important, to 7, least important on the list provided the interviewees.

C=commerce, I=industry and mines, A=agricultural and agricultural business, S=service.

Informal Sector Recommendations

1. **Government Regulation** - The informal sector is an extremely vibrant part of the Senegalese economy. Its contributions to employment and the production of goods and services are quite significant. The greatest strength of the informal sector is its ability to rapidly adapt to market conditions and the needs of consumers. Currently, these organizations are not generally paying much in the way of formal taxes. These valuable enterprises are able to survive precisely because they fall outside the purview of the government. The best thing that can be done for the informal sector in the larger sense is to leave it alone. Minimizing efforts by government to regulate this sector, rather than seeking to expand regulatory procedures, may be the most appropriate donor action.
2. **Credit** - The major need expressed by owner/operators in the informal sector is for access to credit. However, their record keeping, level of activity, and growth potential do not justify creation of a separate banking system designed to meet their needs. In fact, it is doubtful that they fully understand the nature of formal savings and credit, and likely would be unable to handle repayment in an appropriate fashion. Given the size of the loans that could be justified, the real needs for finance, and the understanding of credit mechanisms, large scale projects designed to address this need do not appear to be called for. Instead, informal credit mechanisms, or credit distributed through groups, particularly business associations appear to make the most sense. This may require some technical and financial assistance to strengthen and expand the role played by such associations.
3. **Labor** - These organizations employ many individuals, primarily as apprentices. Costs are kept very low and labor is thus relatively productive, especially when compared to the formal sector. Attempted interventions in this area may lead to greater enforcement of the labor code or, perhaps more likely, greater payoffs to government officials, union representatives and others for ignoring the code. The apprentice system is well adapted to local conditions, resources and "recycling" techniques that make local enterprises viable. It is doubtful that externally financed training programs would be able to address the true skill needs in the informal sector. While improved technical and trade schools might be

worthwhile investments, they are unlikely to provide much direct assistance to the existing informal sector.

4. **Functionaries** - The prime contact of informal sector businesses with the government appears in the form of the extraction of "informal taxes" Decreasing the number of public officials in general, and the insertion of many former functionaries into the private sector will probably be the biggest help. Sensitizing those in the public service to the legitimacy of these firms and the contribution they make to the economy is probably the best thing that can be done at this time. This could be included in an "in-service" training program designed to expose functionaries to the operations of and contributions by the private sector to the economy.

5. **Organizations/Associations** - The organizations which represent the interests of informal sector firms are even weaker than those which serve the formal sector. Support for strengthening, and in some cases establishing new associations is very much needed. Donor sponsored technical assistance in this area would be highly desirable. If successfully nurtured, such associations could provide a mechanism for disseminating information, lobbying on behalf of, and managing credit for the informal sector.