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CLUB DU SAHEL

SMALL BUSINESS PROMOTION IN THE SAHEL

A SURVEY WITH GUIDELINES TO DONOR AGENCIES FOR FUTURE INITIATIVES

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The ideas expressed in this report are those of the author of the document and do not necessarily reflect the views of the OECD, the Club du Sahel or the CILSS.

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John McKenzie

FOREWORD

The purpose of this report is to contribute to the reflection of cooperation agencies wishing to provide their support to CILSS Member countries for the preparation and implementation of projects for small business promotion.

The Club du Sahel Secretariat felt that one of the best ways of making this contribution was to describe six projects financed between and 1990, to recount their experience, to describe the obstacles which they managed to overcome and the ones still to overcome so that such projects ultimately can be successful.

The author of the report, John McKenzie, worked with the Kaolack project for four years. He worked with passion and stubbornness trying to understand the environment of the project and the best possible way to respond to the needs of artisans, traders, producers. He never stopped raising questions. His ideas, his personal opinions, the demands he made on himself give special value to this document.

I should like to list a few ideas which I share with John McKenzie.

First, we believe that projects for small business promotion are useful. These projects give direct assistance to the Sahelian people. They provide them with knowledge, on-the-job training, the possibility of carrying out their own project and rigor in business management. The men and women who succeed in creating small businesses will be stronger, better equipped to use their skills and to defend their interests.

We feel, however, that future projects should necessarily combine savings and credit and that their priority objective probably should be to mobilize local savings. This is how a community will, from the very start, participate in the chances and risks of its own future. Money coming from outside does not have the same value, in the eyes of the community, as money accumulated by local individuals and groups. External money can be a useful addition, but should not be a substitute for personal and collective effort. The Segou project has taken fruitful initiatives in this respect.

Projects created for small business promotion should, we believe, be profit motivated. They should be planned and managed with parsimony, profitability and they should have lean and rigorous management. The interest rate should reflect the cost of a scarce commodity: money. Profit motivation should be clear from the start and the commitment to profit should not waiver. By keeping to profit objectives, a community may hopefully generate income which one day, it will be in a position to share with equity. To confuse, as some projects have done, social and economic objectives does not seem sensible. What remains when a project has lost its capital? Where are the small businesses?

External donors are naturally concerned by institutional questions, but a society cannot change in a short period of time. Society itself will change institutions not external donors. Donors can only contribute modestly to change if their aid is given with judgement. The present state of institutions in the Sahel justifies, in our view, an accommodation with uncertainty about the future institutional position of projects for small business promotion. Donors should be flexible, watching and taking opportunities as they arise. We feel, however, that donors giving substantial aid to Sahel countries are in a position to negotiate the independence of small business projects from the State.

To conclude, without pretending to do justice to a very interesting report, we insist that donors bring the utmost care to the selection of technical cooperation personnel who will be given the responsibility of managing small business promotion projects. The list and scope of skills which these people should possess in order to be successful is very large indeed. However, projects can take root only if they are directed by real professionals, men and women who have demonstrated their capacity for entrepreneurship.

The Club du Sahel Secretariat welcomes all comments which can improve the attached report.

Anne de Lattre

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Drawing conclusions from the successes and problems of various programs to date, guidelines to donor agencies for the design and implementation of future initiatives are as follows:

1. **HOW ONGOING PROJECT DATA MAY BE USED FOR THE PURPOSE OF DESIGNING FUTURE SMALL BUSINESS PROGRAMS:**

- SMALL BUSINESS PROGRAMS HAVE DETAILED DATA BASES, BUT SO FAR THESE HAVE NOT BEEN ANALYZED SYSTEMATICALLY, NOR HAS THIS INFORMATION BEEN PUT TO PRACTICAL USE

* Most small business programs have extensive data bases with details of hundreds of businesses such as:

- Their capital value,
- Sales and profitability,
- How they market their products,
- Employment and wages,
- Registration and taxes,
- Technology used and how it is maintained.

- DATA GATHERERS AND ANALYSTS CONDUCTING APPLIED RESEARCH SHOULD VISIT PROGRAMS FROM TIME TO TIME

People doing applied research should:

* process and analyze data that the finance and technical assistance components keep as client records (see above)

* evaluate the impact of services on client businesses

* gather data for larger research activities

Research activities should be wholly subsidized and designed to close down once specific data bases have been established and information gathering assignments have been organized.

2. **HOW TO IMPROVE PROJECT DESIGN**

- IF SMALL BUSINESS PROMOTION PROGRAMS ARE TO BE IMPROVED, THEIR DESIGNERS AND MANAGERS MUST BE SUPPLIED WITH FACTS

The existing data base on Sahelian small business is meager, and contains very little information that can be put to practical use. Very little data from existing programs has yet been collected and analyzed.

- TO DESIGN BETTER SERVICES, PRACTICAL INFORMATION ABOUT SMALL BUSINESS NEEDS IS REQUIRED

Before designing an assistance program, the following issues need to be understood:

* How people save and invest
* Where and how small businesses normally obtain credit
* To what extent legal and fiscal controls really matter to them
* How small businesses are supplied with technology and support services
* How small businesses sell their goods and services

One can, of course, rely on people with flair to quickly survey the situation, but this is a fallible approach. It is better that such information is collected in a systematic way, as it tells us not only what the client needs, but how such needs are served by local channels. This helps us to design programs that strengthen local resource networks.

- IT WOULD BE HELPFUL IF THIS DATA WAS CONSISTENT IN ITS FOCUS, DETAIL AND QUALITY

If data is consistent from region to region, and country to country, then it can provide a useful basis for comparison. If information is gathered in some detail, then it can be used to distinguish various categories of small business.

It would be best if such research was coordinated between donors (although it is not yet clear how this would be managed). It would also be to the advantage of project designers if such data was available before the planning process began, in order to make the planning process more objective.

- THE PLANNING PROCESS MUST CLARIFY A PROJECTS PURPOSE AND ITS OBJECTIVES

Recent small business programs have been implemented with one, or more, of the following objectives:

* poverty alleviation/social equity
* economic growth
* employment generation
* structural change in the private sector
* creation of local institutions

Managers of programs with multiple objectives have been confused because these have often been mutually conflicting. In future, donor agencies must try to be consistent, as they cannot hope to attain so many different outcomes at once, from the same activity. Objectives must be prioritized at the planning stage.

- IF A PROJECT (OR PARTS OF A PROJECT) IS TO BECOME AUTONOMOUS, DONORS MUST BE CLEAR UNDER WHAT CONDITIONS AND WITHIN WHAT TIMEFRAME SELF-SUSTAINABILITY WILL BE ATTAINED IN THE PROJECT PLAN

Current projects, that have been set up as pilot schemes, are now seeking institutionalization as an afterthought. For most of them this is an illusory goal.

All projects are subsidized during their start up phase (preliminary and costly research, training staff, developing systems, etc.). In addition, some of the services programs may offer will have to be subsidized (such as technical assistance and training). Other services, however, will be designed to charge for services and cover their own costs so that they remain behind after the project ends. When designing projects, planners will have to ensure that:

* cost structures of spin-off activities (such as local salaries, rent and overheads) are not inflated, and equate to local standards, so they can be borne by the spin-off organization when the parent project has gone

* subsidy is phased out as the activity begins to pay for itself, according to a pre-determined schedule

* the spin-off activity is sustainable in itself, and does not actually rely on some subsidized part of the project (such as technical assistance follow-up) for support

- PROJECT TIMEFRAMES MUST BE LONG (AT LEAST 10 YEARS)

Programs should be planned with timeframes long enough to allow them to attain objectives. Such timeframes may be broken up into phases. Each phase should have targets against which progress can be evaluated. Continued funding may be contingent on the attainment of targets. Planning within a long timeframe should reduce the type of uncertainty about the future under which most projects are managed at present.

3. HOW TO IMPROVE PROJECT MANAGEMENT

- CREDIT MECHANISMS MUST BE DESIGNED, AND RUN, LIKE BUSINESSES THEMSELVES

Experience has shown that projects which maintain high loan repayment rates, have the greatest (and sustained) impact. Also, programs can be managed in a rigorous and unsentimental way, to achieve the highest financial return possible, and still generate strong social benefits (as does the Grameen Bank). The most effective programs:

* charge interest rates which reflect their cost of lending,

* are lean on costs and use resources efficiently,

* are managed for the highest financial gain, not for the highest social gain,

* use viable loan guarantee mechanisms, through group arrangements or by material security, or a mixture,

* do not require loan clients to register, pay taxes, or follow project directives on type of goods to be purchased, as a condition of getting a loan.

Even if credit programs do not actually become self-financing, research indicates that programs managed on these terms are more effective than others.

Credit programs may provide some technical assistance as part of loan dossier preparation, but follow-up technical assistance to borrowers should be strictly separated out from costs and activities of the credit fund.

- TECHNICAL ASSISTANCE AND TRAINING HAVE SOME IMPORTANT FUNCTIONS AND SHOULD BE A SUBSIDIZED ELEMENT OF PROJECTS FOR A SPECIFIC PERIOD

The most useful functions of training and technical assistance are:

* to train program personnel, because local skills in credit management and small business promotion are limited, and well trained staff transfer their skills to clients,

* to train groups how to function, to morally guarantee loans, or to create savings mechanisms,

* to provide tailor-made assistance to larger firms with specific management or technical problems,

* to provide follow-up services to loan clients but this must be done sparingly as necessary, and for payment.

Certain training and technical assistance activities may be taken over by private organizations that continue to provide services for payment, and such initiatives should be encouraged before subsidies are phased out.

- PROJECTS MUST RECRUIT AND KEEP THE APPROPRIATE TYPE OF STAFF

Successful projects are managed by expatriates with particular qualities, who normally have strong entrepreneurial skills and/or are competent financial managers. Such people are very difficult to find, require careful selection, and need to be paid appropriately. Projects require fewer, (1 or 2) higher quality expatriate staff, than is presently the norm. Technical experts should be used sparingly, and for activities which can show clear results. During early years, programs should expect to make mistakes in recruiting local staff, so members of personnel should not be engaged on a permanent basis, and should be constantly evaluated until they have proved themselves. Local staff may be motivated by some element of payment by results. Salary scales should correspond to market rates.

- IF GOOD PEOPLE ARE SELECTED, THEY SHOULD BE GIVEN LATITUDE IN DECISION MAKING

Donor agencies should allow project managers as much flexibility as possible, without burdening them with procedures and requirements for external approval.

- SMALL BUSINESS PROJECT FINANCIAL MANAGEMENT SYSTEMS SHOULD BE ABLE TO PRODUCE STATEMENTS OF RESULTS

Actual project financial management systems are designed to track where money came from (budget) and how it was spent (expenses). Although this system complies with donor agency regulations it is not very useful for managing activities, particularly revolving credit funds. Projects need to adopt business systems which produce regular statements of results (such as income statements, balance sheets, and accounts overdue). Presently, most projects have a double reporting system (one for management, one for donor reporting). This should be simplified, but means that donors will have to alter their requirements.

- SMALL BUSINESS CREDIT PROGRAMS SHOULD BE AUDITED AT LEAST ONCE A YEAR

For projects that handle complex flows of funds, audits are useful exercises, not only to assure a level of security, but to provide feedback on the efficiency of the management system.

- PROJECTS SHOULD BE EVALUATED WITH BETTER INFORMATION BEING MADE AVAILABLE TO EVALUATORS, ACCORDING TO MORE PRECISE PARAMETERS, AND MORE CRITICALLY

Evaluation should be more focused on the attainment of realistic and quantifiable targets. With the availability of better financial reports and of other impact data (as proposed above), evaluators will have an easier job. More constructive criticism should be encouraged from evaluators, and donor agencies should be less sensitive to a straightforward presentation of facts.

- CREDIT PROJECTS SHOULD INCORPORATE A SAVINGS COMPONENT, OR LEVERAGE LOCAL INVESTMENT IN SOME OTHER WAY

Up to now, few projects have worried about savings or attracting local investment. However, credit funds can be used to leverage mutual guarantee funds and even venture capital funds. In rural areas, where Caisses Populaires have been set up on a trial basis, there has been little experimentation in using such funds for small business investments.

Experiments indicate that people become more involved in, and take more seriously, programs in which they invest. Some donor agencies want to find ways of working with informal financial organizations, but this is probably much more difficult than anticipated because people save expressly for security and do not want their funds exposed to risk. Also, informal mechanisms are successful exactly because they are informal, and family or group based. It is not clear how such mechanisms can be co-opted into more formal structures.

- WORKING RELATIONS BETWEEN PROJECTS AND BANKS NEED TO BE IMPROVED

In many countries, banks give projects poor service, and for some credit programs this makes for additional and unnecessary work. As a major client, a donor agency project should be able to negotiate with its bank for better terms of service (if the bank is capable of supplying them at all).

4. HOW TO CLARIFY UNCERTAINTIES BETWEEN PROJECTS AND GOVERNMENT POLICY

- THE RELATIONSHIP BETWEEN PROJECTS AND GOVERNMENTS IS VAGUE AND SHOULD BE CLARIFIED

Because the need to provide intermediate financial services is so great, most donors are now seeking (and will be continuing to seek) to institutionalize their projects. Most current projects were set up on a pilot basis, and as such nominally independent, but under supervision from the government. These projects are now seeking to prolong their activities as local institutions, but the role that the government will play in their future is unclear because a phasing out of government supervision was not considered at the time of project negotiation.

5. HOW TO START A DISCUSSION ABOUT CENTRAL BANK POLICY

- DONOR AGENCIES SHOULD OPEN DISCUSSIONS WITH THE CENTRAL BANK FOR A CHANGE IN REGULATIONS SO THAT INTERMEDIATE FINANCE ORGANIZATIONS CAN OPERATE LEGALLY

At present, small business credit programs are "floating", and have no real status as lenders according to central bank regulations. Although the Sahelian countries need intermediate financial organizations to provide credit and savings facilities to people who the banks do not serve, there is no provision for such organizations under current law. It is important that this situation should alter if donors want to continue promoting small business credit, and other financial services.

- TO PROVIDE SMALL BUSINESS CREDIT IN A SUSTAINABLE WAY, INTEREST RATES MUST BE HIGH, BUT GOVERNMENTS AND THE CENTRAL BANK RESIST THAT

Using case studies from current projects to prove that small businesses can pay high interest rates, and indeed need to as access to sustained sources of credit is a very important problem. Donor agencies should initiate a process of informing government and central bank administrators about the importance of interest rates.

6. HOW TO USE PROJECTS TO PROMOTE POLICY REFORM

- PROJECTS SHOULD USE THE SERVICES OF A LEGAL ADVISOR FROM TIME TO TIME

A Legal Advisor may assist projects in the following ways:

* collaborating with researchers to collect information from small business owners about the extent to which legal and fiscal controls affect their activities;

* to measure the impact of policy reform so that information can be provided to donors as feedback;

* assisting government offices (eg. customs service) to redraft outdated legislation so that draft amendments can be proposed to higher authority for approval in a concrete manner;

* collaborating with the technical assistance component to provide legal advice to particular clients, or training to larger groups about legal rights.

PART I

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DONOR INITIATIVES FOR SMALL BUSINESS PROMOTION: A REVIEW OF THE STATE OF THE ART

A. A BRIEF HISTORY OF SMALL BUSINESS PROMOTION INITIATIVES IN THE SAHEL

1. First Generation Initiatives: Unsuccessful on the Whole

During the 1970s, most Sahelian governments declared small business a priority, and with donor funding started up a variety of direct assistance programs to support it. All of the countries set up government promotion and advisory agencies to provide businessmen with technical assistance, linked to lines of credit provided through national development banks. Governments also built industrial estates which provided business premises and services. In some countries appropriate technology programs were set up to provide additional assistance.

The strategy was orientated towards modem, formal sector production and service activities, in urban areas (usually the capital city). Promotion agencies were responsible for identifying business promoters, helping them prepare feasibility studies and business plans, facilitating access to credit from development banks and coordinating installation on the industrial estates. The promotion agencies were then supposed to provide follow up services such as assistance with bookkeeping. Financing was provided by development banks at subsidized rates of interest and loans were secured by guarantee funds. The purpose of this strategy was to assist the creation of larger small businesses or the transformation of existing small businesses into medium-sized businesses.

The results of these initiatives were not well evaluated or documented but most reports describe them as having "mixed results" which is a kind way of saying that they failed to achieve much. For example, a European Development Fund report on the Centre d'Etudes de la Promotion Industrielle (CEPI) in Mali notes:

> "Les études du CEPI sont des études théoriques sans rapport avec la réalité de l'entreprise à créer ... chaque division travaille en vase clos".

The line of credit provided by the German technical assistance group KFW worth CFA 2.25 billion provided through the Malian Development Bank (BDM) to finance CEPI's clients in 1973 was fully invested, but has only so far received repayments worth CFA 300 million. Apart from inadequate feasibility studies, this poor performance was attributed, interalia, to selection of business promoters with doubtful experience,political pressure to make loans, lack of equity participation by promoters, and shortage of skilled labor.

Ouagadougou's industrial estate in the Kossodo district was developed at great expense, in partnership with the Burkina Business Promotion Board OPEB (as it was recently known). The industrial estate was partially occupied by small manufacturing firms that later withered under their exposure to government regulations and economic recession. The authorities now casually refer to the industrial estate as the "Kossodo graveyard". OPEB was abolished in 1986.

A variation of this strategy was attempted by The Gambia's Indigenous Business Advisory Service (IBAS). Unlike its counterpart organizations in other countries IBAS was not linked to an industrial estate but worked with small semi-formal production and service businesses in Banjul and other regional towns. IBAS provided training and business management advisory counselling. As a condition of following IBAS's good advice, clients were eligible for loans from the Gambia Development Bank, which were secured by a guarantee fund provided by the UN Capital Development Fund. Unhappily, this guarantee fund was decapitalized by more than 80 per cent.

The general conclusion drawn by donors was that after considerable investment, returns had been very modest both in terms of impact and institution building.

2. <u>Second Generation (Recent) Initiatives: Something Learnt but More to Learn</u>

Over the last seven or eight years, the donor agencies made a radical departure from the first generation approach. This was partly due to "lack of return" on previous investments, but also due to rethinking about development assistance in general. The industrial estates and business promotion agencies added to an increasingly towering heap of failed "trickle-down" initiatives. At the same time the successes of other approaches in other parts of the world, such as that of the Grameen Bank, showed the potential for "bottom-up" development. In addition, Sahelian governments under increasing financial pressure from burgeoning state institutions had proved themselves incapable of generating economic growth.

Donors therefore began to experiment with direct assistance programs working not through government agencies, but through non government organizations (NGOs) and other independent intermediaries. These programs were designed to be decentralized and to find means of providing resources to the end user in the most appropriate form possible. These programs were normally set up as pilot activities, working in a limited geographical area, which were usually regions outside of the capital city.

Donor **OBJECTIVES** for these programs was one or a mixture of the following:

- Poverty Alleviation/Social Equity

Including increased income for the rural population and promotion of women's activities.

- Economic Growth

In terms of increased efficiency and diversification of business activities, the "graduation" of small into medium enterprises, and the strengthening of the economic fabric.

- Employment Generation

Often related to absorption of redundant state sector employees or of university graduates unable to find jobs in the government administration.

- Structural Change in the Private Sector

In line with Sahelian government structural adjustment policies, promoting the privatization of economic activities that were previously managed by the state, or facilitating policy reform to improve the business environment.

The **METHODS** used in the implementation of these programs were nominally the same as in first generation initiatives, but with a major difference in emphasis:

- Training and Technical Assistance

These services were given less emphasis in their own right, but were usually provided in association with credit. Training as a precondition of getting a loan was dropped. Much less importance was placed on technology transfer. Business owners were no longer given classroom training in accountancy and management, except when the service is offered on demand.

- Credit

Lines of credit were managed by intermediary organizations. Efforts were made within the limits of central bank regulations to apply higher interest rates than the development banks. Different experiments were tried to find loan guarantee mechanisms that were adapted to local circumstances.

- Policy and Administrative Reform

Donor agencies were trying to influence macro and microeconomic reform through structural adjustment programs and changes in commercial law. This was facilitated by donor technical assistance (economic analysis, redrafting legislation, etc.) with implementation linked in some cases to compensatory payments in foreign exchange.

Various **STRATEGIES** for direct assistance to small business in the Sahel were adopted.

- The Community Development Approach

The goal of this approach is poverty alleviation and community growth with a rural focus. Given the survival level of its clients, income generation rather than employment or productivity growth is its focus. Generally the community development approach integrates programs of social infrastructure development, credit, low level technical assistance and training. Such programs usually have high cost per client and limited sources of revenue so are rarely self sustaining, particularly when run by outside

NGOs. Individuals and communities usually benefit from increased incomes and standards of living, but the impact of such programs is usually small in broader economic or business development terms. Examples of programs using this type of approach are CARE Maradi, Association pour la Productivité (APP) Burkina Faso, and the Coopérative League of the USA (CLUSA) Niger.

- The Marginalist/Incrementalist Approach

This approach focuses on the needs of established businesses, usually microenterprises employing less than 10 people, that are traditionally operated. The goal of such an approach is marginal growth of client businesses in terms of assets, income and employment (or job maintenance). Because of the high cost and low impact of training delivery to small traditional businesses, its role is minimalized and the emphasis is predominantly on credit. Short term working capital loans of (usually in the range of CFA 100,000 to CFA 4 million) are given at market interest rates. Financial sustainability is a major objective of such programs. An example of a program using this kind of approach is that of USAID's Private Enterprise Credit Agency in Kaolack, Senegal.

- The Business Creation/Development Approach

The goal of this approach is to promote sustainable growth in client businesses, increasing employment generation and a steady increase in income and assets. Its aim is to develop modern small enterprises. Clients are provided with an individualized package of technical assistance, training and credit resources. Loans may be substantial (up to CFA 25 million) for periods usually up to five years, and are for both fixed and working capital. Loans are not usually at commercial rates, but often service fees are charged. Most programs applying this approach have long-term objectives of sustainability but costs of services to clients are high. Furthermore, because investment per client is high, relatively few clients need to fail before losses are incurred. Examples of programs using the business creation/development approach are the European Development Fund program in Mali, the European Development Fund program in Podor, Senegal, and USAID's VITA Chad.

B. SUCCESSES OF CURRENT PROGRAMS

Recent programs have been having various successes. As little as five years ago, common wisdom said that it was impossible to lend to small businesses in the Sahel and to sustain high repayment rates. While this issue has not been conclusively disproved, some programs have taken a commercial approach to lending and providing services, and have experimented effectively with loan guarantee mechanisms, and are now showing a potential for sustained loan repayment. Current debate about such programs now focuses less on repayment and more on sustainability of services, as some are demonstrating an ability to cover costs. Some programs have taken new approaches to providing training and technical assistance. Most programs also have an important potential as research bases. These successes are fragile and now need to be built on, refined and improved.

1. Some Credit Programs are Achieving High Repayment Rates

A few of the present (second) generation donor credit programs are sustaining high loan repayment rates. For example, the European Development Fund (EDF) project in Mali and the USAID, Kaolack programs have reported loan recovery rates better than 90 per cent. The USAID CLUSA program in Niger has reported a 100 per cent repayment record. Such rates are far better than those experienced by first generation programs, or by commercial banks for small business lending in some countries. Of course, there is a tendency for all credit programs to be successful in their early days, when in the donor spotlight and before bad debts have built up; but the better current programs are demonstrating a capacity for sustained performance. The reasons for high repayment rates are as follows:

- Programs are more independent in decision-making

In the past, small business loans from development banks were often granted for reasons of political patronage. Such loans were rarely repaid. In order to give credit fund managers freedom from such constraints, recent small business credit programs have been designed in such a way that government representatives are closely involved in deciding program policy and strategy, but leave all operational decision making to program staff. This has meant that loan decisions have been taken on the basis of the viability of the dossier and the risk profile of the client, and have not been influenced by other issues.

- Small business investments can be highly profitable

Small businesses use modest amounts of money very efficiently. As long as a business is in local demand, is not faced with many competitors, has simple equipment that is easily repaired, and is owned by a person with energy and flair, then it has the ingredients of success.

Because Sahelian small businesses minimize their overheads, they use capital very efficiently, for example they generally only manufacture to order, so only incur costs with a sale in view. Because capital is scarce, returns on small amounts that are turned-over very fast (eg. a packet of cigarettes bought for CFA 170 and sold at CFA 10 a cigarette) is high, as are returns on proportionately larger investments.

The Kaolack project, during phase 1, only financed activities yielding a return on investment greater than 100 per cent a year. This allowed for the margin of error involved in analyzing such projects, and few clients paid late as a result of profitability.

- Programs are stressing a commercial approach

Conventionally, donor agency programs in the Sahel have been grant-oriented, and have simply spent money to achieve the greatest possible socio-economic impact. Recent small business loan programs have been different, however, because they have lent money to achieve socio-economic impact, at the same time as seeking repayment. Revolving credit funds, particularly those that have sought to cover their own costs, have provided benefits that can be perpetuated.

Maintaining repayment-rates on loan funds requires a hard commercial approach that is quite different from the conventional program technique, and welfare-oriented organizations have so far found this difficult to adopt. According to program evaluations, however, the socio-economic impact of the programs with a commercial approach is usually as good, if not better, as those with a welfare-orientated approach. The added advantage of the commercial approach is that it assures that loan funds are not so easily depleted, and attempts to ensure for self-sustainability.

A loan program with a commercial approach is businesslike, service oriented, and seeks to manage its resources for the highest financial gain. Commercial programs are particularly concerned with costs and loan recovery. This means that loan investments are chosen on the basis of profitability, risk and guarantee. It also means that loan repayments are constantly monitored, arrears situations are aggressively followed up, overdue amounts never becomes so large that a client is overtaken by a debt situation he cannot settle.

A welfare oriented program selects its loan investments according to how much good they will achieve within the framework of social objectives. This sometimes means making unsecured loans. For example, CARE in Maradi will not provide loans to merchants in town, but will provide unsecured loans to merchants in villages. Out of a desire to be helpful, such programs do not aggress late payers who are usually allowed to accumulate 3 to 6 months of arrears before action is taken. Also when clients are subject to acts of force majeure (fire, theft, etc.), welfare oriented programs take pity and defer repayment or find some other means of releasing the client from his obligations.

Unsurprisingly, programs that are managed for the highest financial return have much better loan repayment rates than programs managed for the highest social return. For example, the Kaolack program has a provisional loan loss of under 10 per cent of its portfolio, whereas the APP in Burkina Faso has a provisional loss on its old loan portfolio of about 70 per cent.

However, "welfare" and "commercial" are not two different choices. Due to donor agencies' socio-economic objectives, programs with a commercial approach have a social purpose, but are managed in such a way that social impact is an outcome of management for the highest financial return. In Latin America, credit programs for the poor, such as those managed by ACCION-AITEC, are extremely severe on late repayment even to the point of publicly shaming non-paying clients. In spite of this rigor, such programs are still perceived by their clients as working for their own welfare.

It is, in our view an important finding of the analysis of projects for small business financed so far that:

> Loan repayment rates and program impact are often closely associated. Programs with low repayment rates either have vague and conflicting objectives, are poorly managed, or are prohibited by external factors from being rigorous. Loan programs that are not managed for the highest financial return will decapitalize their loan funds, and fail to provide sustained benefits to large numbers of businesses.

2. A Few Programs are showing a Potential for Covering their Costs and Becoming Self Sustaining

Most of the current programs are still not self sustaining, and in fact spend heavily to lend money. Two of the current small business programs, the Private Enterprise Credit Agency in Kaolack, and the Sahel Regional Financial Management Program (SRFMP) in Dakar, however, are beginning to show a potential for becoming self sustaining.

The Kaolack program is currently covering about 80 per cent of its local costs, but this figure does not include the cost of its expatriate manager or any provision for bad debts (if this provision is included, the program covers 50 per cent of its costs, not including expatriate costs). The program is now expanding into the Region of Thies as well as beginning to market new services in the Kaolack-Fatick Region. The loan fund is being increased, and the program is well positioned to increase its loan volume (and revenues) while roughly maintaining its present costs. Profitability, however, is still a medium-term objective. It is important to note that the Kaolack project charges an interest rate of 24 per cent, fixed by central bank regulations, that could probably be increased to, say, 35 per cent without creating hardship for its clients, or affecting repayment rate. Access to credit is a more important issue for small business clients than high interest rates.

SRFMP Dakar is not a credit program, but has created an association that sells training, consultancy services and book-keeping systems to bakers in Dakar, employing 2 full time and 4 part time staff. The association is presently covering 90 per cent of its costs from fees for services, and profit on sales of accounting books. SRFMP Dakar is also trying to set up similar associations for medical clinics, poultry farms and tailors. Because businesses in these other categories are not as highly capitalised or production-process oriented, their owners do not place so high a value on services as the bakers. However, there is potential for setting up other consulting associations on a self sustaining basis.

A recent USAID stock-taking of its microenterprise credit programs around the world showed that those which tried to become self sustaining generally performed better than those programs managed with the expectation of continued external support.

We would therefore conclude that:

Small business promotion programs can charge market rates for their services. As long as the client perceives that the benefits of these services are worthwhile, he will pay for them. This has two important implications: The first is that programs must start providing clients with what they really need (i.e. will pay for) instead of providing them with what is "good for them". The second is that programs can have a continuing impact after donor funding has run out.

Programs with a heavy element of subsidy should establish a planned schedule so that grant funding can be progressively phased out, and sustainable elements of the program can continue independently.

3. Programs are demonstrating an Impact

Somewhere in the stated objectives of each of the donor funded small business credit programs currently being implemented in the Sahel, there is reference made either to job creation, or to increase in family or rural incomes. Recent evaluations of most of the programs have indicated that loans have created jobs. Some program evaluations have also shown that loans have generated increased incomes. Although it seems evident that such programs have had an impact on employment and increased incomes it is not clear in what way, or to what extent.

In some cases, loans make businesses better. They allow entrepreneurs to develop activities which provide new or cheaper goods and services to the population. For example, a manufacturer of millet mills in Kaolack went into competition with suppliers of imported mills by lowering his price through buying materials in bulk and by offering a two-year service warranty on his equipment. Perhaps the main impact that programs have had on such businesses besides merely providing them with funds, has been to help them to use credit instead of just taking on debt.

The externalities of such programs are difficult to measure. As a result of the intervention of the EDF program office in Sikasso, Mali, three commercial banks opened branch offices in the town. Also, the program financed the opening of Sikasso's first nightclub. Whether peoples lives in Sikasso improved because of the arrival of these establishments is hard to say, but they certainly gave the town an air of activity. Improving town facilities, and making places more attractive for people to stay in, is an important factor in rural areas.

One of the reasons why it is quite difficult to measure project impact is that programs are rarely self-monitoring and program evaluations are usually carried out by outsiders on brief visits. We would therefore submit that:

> Programs must in future follow-up individual clients themselves to evaluate if jobs are being maintained, profitability has increased, asset value has increased, or other improvements have been experienced in client businesses. Such evaluations can tell us about impact, as well as showing how clients use benefits. They also provide a data base which can be used by outside evaluators.

4. Some Programs have Involved Local Partners and Investors

In first generation small business initiatives, "institution building" was an important aim. Unfortunately, many of the institutions that were created in the public sector were inviable. Second generation programs were conceived on a "pilot" basis, to function independently of government, so institution building was an issue that was avoided. Independent programs were set up with very little reference to the local context. Some tried to forge a partnership with local banks (EDF Mali, USAID Kaolack) but received negative signals. None of the programs were set up implicitly to involve local businesspeople or others as investors or partners; but some have.

The EDF program in Mali has developed a loan guarantee mechanism, requiring each of its clients to collect a group of people as supporters. Members of the group are each required to save an agreed amount on a monthly basis in a bank account. This savings account attracts interest to the benefit of its depositors, but can also be drawn on if the client does not repay his loan. During its first two years of operation the program has only financed 213 clients, but because of this group mechanism has involved 1,969 other people in its activities. In addition these groups have pooled a total sum of CFA 50 million in savings, part of which may be reinvested in program activities. Another way in which the program interacts with the local milieu is through its loan committees, which include local bankers, representatives from the business community and members of the administration. Although such committees serve to "rubber stamp" loan dossiers, they have an important participatory significance. The Segou office of this program has also succeeded in creating an investment club of eight wealthy merchants each of whom has put CFA 5 million into a fund, to be invested in the program's better projects on a "holding company" basis.

The SRFMP Dakar training program for small businesses has taken a different approach but had similar success in attracting local participation. SRFMP works with groups of businessowners from specific sectors to develop easy-to-use bookkeeping systems, and to develop a training course to teach the system. Some of the businessowners then become involved as trainers and consultants, and in one case (bakers) have started an independent consulting and training operation that is now almost self-supporting.

We believe that experience with small business promotion so far shows that:

<u>Programs that aim to create viable local institutions must start involving local people (business owners, investors) at an early stage. This means involving local participation in design and decision making. It also means using credit funds to leverage local investment. Working with local partners is difficult and time consuming at the beginning, but ultimately provides programs with the means of implanting themselves into the local economy</u>.

5. <u>Programs are Making us Rethink the Role of Training and Technical Assistance</u>

First generation programs were often designed on the basis that inadequate management and technical skills were the most important factors constraining small business development and could be overcome by providing training and technical assistance. Finance was a secondary resource to be provided once a business was correctly managed. Donor agencies invested heavily in training and technical assistance, mainly through government institutions. They also provided lines of credit through development banks. Technical experts in technology transfer and management were very often provided, but credit supervisors were rarely supplied.

The overall results of investment in technical assistance and training are described in evaluations as "modest". Reviews of such evaluations have concluded that formal training received by business owners did not relate to their business success, and a far more important factor was previous experience (Hunt, 1985). Where credit and technical assistance were provided together, such assistance did not permit more rapid expansion of most of the client businesses but significantly added to costs.

Reasons for this failure included:

- the type of technical assistance (accounting by wrote, feasibility studies, etc.) was not appropriate to needs;
- centralized public agencies were not effective at providing services. Functionaries were poor business advisors and in some cases created bureaucratic requirements, so were perceived by business owners as a source of harassment.

Donor agencies concluded that they understood the role of training and technical assistance much less well than they understood credit operations, therefore the main focus of second generation initiatives was credit. Training and technical assistance is now seen as a complementary service to credit but programs differ greatly in how much emphasis they place on it. All programs at present provide their clients with assistance preparing loan dossiers. The degree to which further assistance is provided varies from program to program. USAID Kaolack provides no further assistance, EDF Mali may even participate in the co-management of client projects.

In certain particular cases, however, technical assistance has yielded results. For example, a retired baker from the U.S.A. sent to Nigeria on a short term visit under a voluntary program worked at the request of a Lagos bakery on cost-cutting techniques and bread mixtures with significant results. Such problems sometimes arise when a business expands following receipt of a loan, or receives a large order, so in this way technical assistance is sometimes leveraged.

In our view, the projects have generated useful information on specific needs for technical assistance, for instance:

- <u>Technical assistance can work when it focuses on resolving a specific problem of a specific business, and programs offering technical services should be offered in a highly focused manner.</u>
- <u>Technology assistance can only be cost effective when provided to larger small businesses, and can only yield results when the business owner is not constrained by regulations and other external factors. Programs should not waste resources trying to provide technology services to many small-scale artisanal activities using simple local techniques.</u>
- <u>Trainers or Consultants must have skills appropriate to their clientele, and should understand how their businesses operate. The best training investment any program can make is in its own staff.</u>
- <u>Credit programs should give simple training when it is a necessary part of the credit mechanism (eg. teaching solidarity groups to function).</u>
- <u>Programs should require trainees to pay for services. Training as a free good has only perpetuated delivery of inappropriate assistance. Sahelian people do not value what they do not pay for.</u>

6. Difficulties of Loan Collateral have been Overcome in Various Ways

During first generation initiatives, donor agencies were concerned that lack of collateral would prevent small businesses from having access to credit. One solution was to provides lines of credit to be on-lent without security, another was to provide loan guarantee funds to cover bank risk. Because neither of these methods obliged the client to repay, he usually did not. Second generation initiatives found alternative ways of obliging a client to respect his engagements as follows:

- Material Collateral

In commercial banking terms, small businesses do not have collateral. Actually, they just do not have the type of collateral that banks like. Most established small businesses with fixed premises have equipment or stock, but bankers shudder at the thought of second-hand cars and stocks of scrap metal as securities. Such items do, however, have a resale value and are in fact more easily saleable in the Sahel than the property deeds that the banks prefer.

Such programs as VITA Chad, and USAID Kaolack use this method of loan security. In event of non-payment, material taken as collateral (and possibly other material as well) is seized by a bailiff on a provisional basis until the debt is settled. If a debt remains outstanding, the courts must give judgement before seized material can then be sold.

Programs that use other guarantee mechanisms also use material collateral as a last resort, but are liable in some cases to encounter problems, not having formally registered the material or the contract at the outset. Using material guarantees as a means of loan enforcement is not for the squeamish. Loading a millet mill into a pick-up truck surrounded by weeping women and children is hard, particularly so on the sensitivities of the expatriate expert, but often less so on the local staff person who usually takes a far more practical view of things.

- Group Mechanisms

Informal savings and credit often uses a group mechanism, and some programs have such a system to secure loans. APP in Burkina Faso, for example, works with village groups as units of collective responsibility. Loans are made to either individuals or sub-groups, but funds are always channeled through, and with the approval of, the larger group. In the event of non-payment all members of the group are held responsible and are refused further access to services.

Other programs such as EDF MALI have developed this idea, obliging group members to make financial contributions. Group savings can be drawn on in the event of non-payment. The program also requires its clients to provide a locally respected individual as a personal guarantor. In the event of difficulties, this person may be used to exert influence or even pay on behalf of the client.

Each of these mechanisms has its strong and weak points:

- The solidarity group system is undoubtedly the best mechanism for lending to marginal activities in rural areas, and is also a good system for savings. It only works, however, where a group has a purpose and real social cohesion.

- A group savings/guarantee system is less good for the poor because of the financial commitment it requires. If it can be implemented, it has the advantage of generating local capital and provides the lender with an easy source of loan security. On the other hand, it is a difficult system to set up and manage, and requires an individual wanting a loan to go through a complex series of negotiations. Also, because the savings/guarantee group is usually set up so that members can take turns to have access to loans, it potentially disallows a proportion of clients from being funded at any given time.

- Material collateral cannot be provided by smaller small businesses, and in some countries involves regulatory procedures and fees. It does , however, provide a simple way of securing loans. It is also flexible, thanks to the extended family who are often willing to pledge collateral on behalf of family members.

So far, attempts to secure collateral shows that:

<u>Credit programs can secure their small business loans effectively. Group solidarity mechanisms are most appropriate for financing marginal activities. Group savings/guarantee schemes, and material collateral can be required of larger clients. In future, programs should find ways of mixing these options to suit their particular circumstances.</u>

7. <u>Projects provide an Excellent (if Poorly Exploited) Research Base</u>

Frequently programs are used by visiting researchers (consultants) as sources of information. Also program evaluations provide some insights into how small businesses operate, the regulatory environment, informal credit, and other data. Apart from a limited number of studies (section 3) program documents provide a major source of facts about small business and the informal sector. Unfortunately this is not saying much.

All of the present small business credit programs have data banks (sometimes computer-based) on clients that have applied for loans. These data, while not taken from a random sample give a lot of information about size and structure of small businesses. So far these have been unexploited.

Programs occasionally conduct their own research. This research usually has the advantage of being designed by people who know the milieu well, in order to provide information that will be used to direct action. Often however this research, for reasons of funding, time or people is less comprehensive than it might otherwise be. Because of their local knowledge and outreach, however, programs are excellent and underexploited research bases.

We believe that in order to help the ongoing projects and help in the design of future projects for small business promotion:

Programs should invite visiting researchers from time to time to analyze small business data that programs keep on client files, evaluate program impact, and conduct other research studies using the local knowledge base and the outreach of the program. These researchers could also be used to conduct larger inter-country research, possibly coordinated by support programs which some donors have established (World Bank RPED and USAID Gemini).

C. PROBLEMS WITH CURRENT PROGRAMS

As already noted the successes on ongoing projects for small business promotion are still fragile and a great many problems still require solutions. These problems are discussed in the following section.

1. Problems with Government and Local Institutions

a) *The Role of Government is Unclear*

When recent programs were at the proposal stage, certain governments were reluctant at the thought of independent organizations taking a leading role in economic development. State disengagement and privatization was a relatively new concept for those countries engaging in structural adjustment. The Kaolack project proposal, for example, took about a year to negotiate with the government of Senegal. Governments were keen to supervise these programs. In addition, the grants with which donor agencies funded these programs were from donor to government. As intermediaries the governments gained automatic right to a say, and in some cases to a slice of the pie.

Each of the current credit programs is supervised by a government ministry, or a committee representing several ministries. Some programs also have government functionaries on permanent attachment. Programs often have some kind of budget for supervisory activities, for vehicles,travel and other expenses.

Apart from approving program strategies, government representatives in some cases control the supply of program funds. This relationship may occasionally suffer from complications. For example, the CARE program in Maradi receives 72 per cent of its funding from the Government of Niger's Counterpart Fund. In August 1989, the Fund sent a team of evaluators to Maradi to look at the projects progress. On arrival in Maradi, the team requested extra per diem. Following a telephone call to the Director of the Fund in Niamey, the request was refused. In response, the evaluation team wrote a scathing report heavily criticizing the CARE program. On receipt of the report, the Director of the Fund threw it out declaring its results to be invalid and decoupled the release of the second year funds from the evaluation results. The EDF program in Mali was not so lucky. The minister of employment, dissatisfied over some elements of the program, withheld a transfer of operating funds. The program was obliged to seek bridging finance from USAID and CIDA for two years.

All of the programs are now considering their options for institutionalization but the continuing role of government is unclear. Donors say that they want programs to become autonomous or private institutions. Government officials express an interest in playing a larger role in small business development. So far there has been no precedent set of either the government relinquishing its supervisory role, or on the other hand taking over a program.

In 1988, the Ouagadougou Chamber of Commerce ran an introductory course on the management of very small businesses, limiting its participation on an experimental basis to 12 small tradesmen selected among retailers of spare parts. The organizers had great difficulty in attracting 12 candidates for a free seminar. Suggestions of "follow-up" after the seminar raised fears of state control.

The present unclear status of projects for small business promotion cannot be prolonged if many more such projects are to be funded. Therefore we believe that:

> When future programs are negotiated, not only the role of government should be defined, but the phase-out of government participation should also be established. Before resources are invested in such activities, it is important that government attitudes should be clarified. This is a serious issue for donors.

b) Governments are Unreceptive to the Issue of Higher Interest Rates

Program strategies and lending policies are approved by government. A major point of negotiation is always interest rates. Sahelian governments wish interest rates for small business borrowing to remain low. Programs looking at institutionalization and sustainability are proponents of high interest rates, but governments have so far remained unconvinced of their arguments.

In Kaolack, the government supervisory committee approved a 24 per cent interest rate with grave reservations about the clients' ability to support it. Two years later, the committee declared itself very satisfied with the experiment. During the third year there was a major turnover of committee members and at the following meeting there was a three hour debate on the excessive nature of the interest rate.

VITA Chad has been trying to raise its interest rate from 12 per cent without any favorable response from government. Actually the government, in the process of negotiating a microenterprise credit fund from the World Bank which involves VITA, is trying to get the interest rate lowered.

Central bank policy, which determines interest rate ceilings can be altered under special circumstances. Government's aversion to high interest rates is therefore more deeprooted. If the reaction is an emotional one of wishing to help the "poor and needy", this is hardly consistent with other policies such as those to tax small businessmen. For example in Chad, the government wants to lower VITA's 12 per cent interest rate (which is calculated monthly on the declining balance of a loan so is equivalent to a flat rate of about 6.75 per cent) yet it taxes VITA's clients with a flat fee of 3 per cent of the loan amount as a registration fee. This means that every time VITA lends a franc, the government makes about half of the income that VITA does, but without bearing any costs or risk.

Programs have established that small businesses can pay high interest rates. Access to credit (i.e. the continued provision of credit services) is a much more important issue for them. Donor agencies should now try to document this phenomenon, and begin a process of educating government and central bank decision makers about the advantages of high interest rates.

c) *Central Bank Regulations Impose Limits on Credit and Savings Institutions*

Most Sahelian countries are members of the Central Bank of West African States (BCEAO). The BCEAO regulates the financial sector imposing limits on commercial banks and other credit institutions. These regulations vary slightly from country to country but put the following constraints on the small business credit market:

- The commercial bank margin on small business lending (fixed maximum lending rate less refinancing rate at central bank) is too low to cover loan transaction costs, never mind cover risk. In Senegal this rate is 3 per cent, and the equivalent in other countries is similar.

- Financial institutions, which are loan companies that cannot take deposits, can lend at higher interest rates (in Senegal up to 24 per cent) but cannot seek refinancing at the central bank. Such institutions must borrow from the commercial banks at normal fixed rates (in Senegal 13.5 per cent on loans not in a special category). Financial institutions are a special category of credit organization normally set up to provide hire-purchase (auto and consumer loans) and not to provide small business loans.

- Before a bank (i.e. an institution giving retail services and taking savings, and providing credit) can be registered it is required by regulation to have a minimum capitalization (in Senegal CFA 1,000 million). Similarly, a financial institution requires a minimum capital investment before being authorized to lend (in Senegal CFA 300 million). These regulations mean that starting small savings and credit operations is virtually impossible. They also impose other constraints: The Caisse Centrale de Coopération Economique has been studying how to set up a mutual guarantee fund, an organization taking deposits which can then provide its investors with guarantee coverage on bank loans. Because such a mutual fund cannot find a start-up capital of CFA 300 million it cannot register, and the project is blocked.

All of the present credit programs are lending with the authorization of government on a pilot basis, but are otherwise technically illegal. If programs are to develop beyond this pilot phase they will have to adapt to regulations (which will be difficult) or have them changed. There has yet been little debate between donor agencies and government or the BCEAO, about this issue.

One of the recommendations we would suggest to donors is the following:

Donor agencies should organize a debate with the BCEAO and the Sahelian governments on a revision of lending regulations governing small business credit and savings. Present regulations make the provision of any viable services to small businesses impossible.

d) Commercial Banks are Disinterested Partners to Credit Programs

Commercial banks are not set up to make small business loans (as discussed in section 4.vii.) nor are under any pressure to seek business in this sector. In other parts of the world the law (as in India), competition to expand financial markets (as in Indonesia), or benign self interest (as in Swaziland), push banks into the small business finance market. Very often these banks work through intermediate service organizations (similar in concept to the Sahelian credit programs) in order to acquire the appropriate outreach. In this way, the banks concentrate on the aspects that they know best (administration, funds management, etc.) while the intermediary service organizations manage the loan portfolio.

Donor agencies have tried to negotiate a similar relationship with the commercial banks for many of the existing credit programs without success. The EDF program in Mali negociated with the BIAO to manage their line of credit. The BIAO initially agreed to do so at a margin of 2 per cent on funds lent out and 2 per cent on funds recovered, but later backed out of the agreement. Currently the only bank providing its own services to small business program clients is the BIAO, Niger. Both CLUSA and CARE's clients are provided with ordinary bank loans under a guarantee scheme which covers 112 per cent of losses. The manager of the BIAO in Maradi explained that without cover from such a scheme the bank would never consider giving loans to village cooperatives or to craftsmen.

In most cases the commercial banks only provide credit programs with bank accounts and basic services. Unfortunately these services are very poor. For example, in Senegal and Mali, bank statements are issued two months late. This means that credit programs, which must reconcile their books at least every month-end to establish a late payments situation, must have other systems for tracking client repayments. Most program officers estimate that it takes two hours to make a bank deposit. In Segou, Mali, the program accountant checks very carefully for discrepancies between amounts actually deposited and deposit amounts appearing on bank statements. Occasionally there have been differences where bank staff have either made errors or simply stolen the money. When the Segou program started up its system of savings/guarantee groups, clients requested that their savings be kept in the program safe as they did not have confidence in the banks. Their fears were not misplaced: during 1989 the BDM (Development Bank of Mali) tried to levy bank charges on all such savings accounts.

As well as providing better basic services, banks could provide a range of other services such as marketing, training, and providing trade and legal information. Thanks to the efforts of an interested bank manager, the BIAO Niger provided CLUSA's village co-operative clients with help in marketing their produce in Nigeria. Bank officers also participated in giving training to cooperative members. Unfortunately such a high level of cooperation is rare.

Some projects for small business promotion have brought a good deal of business to commercial banks and donor agencies are already studying banking sector reform in several countries:

> As far as small business credit programs are concerned, the best outcome of any such reform would be an upgrade in bank services. It would be advantageous for small business credit programs to have a more cooperative relationship with the banks, and projects should deliberately leverage the business they bring to the banks for this purpose.

2. Problems of Project Design

a) Projects are Designed Without Adequate Data

The present donor system of selecting geographic zones of intervention and designing small business programs is rarely based on any factual data. Choice of project zone is often political (e.g. to assist the privatization of the agricultural sector in an area such as Podor or Kaolack). Program rationales are equally vague. Most credit interventions are initiated with the purpose of compensating for insufficiencies in existing systems (i.e. small businesses lack access to credit), without once conducting any kind of study to find out if this is the case. Once donor agencies earmark funding for a program, there is often tremendous pressure within the organization to finalize a project plan. Experts, usually from outside and with limited local knowledge, are engaged for a short period to knock the proposal into shape. Normally they use whatever information is available, which represents very little.

The design of the CARE program in Maradi is a typical case. CARE decided to implement its program in Maradi because several other of its projects were operating in the department, and because it had an adequately large population. During a trip to Maradi the project designers spoke to the Prefect of Maradi, the representative of the Ministry of Planning, Assistant Prefects from two local arrondissements, the managers of BIAO and the development bank, and to CARE personnel in the region. Also they made a tour of the region. The project paper says the following:

> "The impression that emerged from these meetings and the tour of the area was of a very strong need for a project that would attempt to stimulate the local economy in a holistic manner by providing assistance in the start up and expansion of a wide range of economic activities"....and later...

> "The limitations on funds available to CARE Niger to research this project has meant that a detailed needs assessment has not been conducted in the villages of the proposed project area".

CARE's project proposal is in fact better than most because it states its own limitations. Lack of data in other proposals are often obscured by a veneer of "professionalism". What is typical in this case, as with so many others, is that a project was designed for a group of people without any reference to them. A similar situation in Kaolack meant that a survey of potential client businesses had to be conducted before an implementation strategy could be designed. Findings of this survey, and the strategy that was based on it, conflicted strongly with elements of the project design. This conflict caused problems in the organizational structure of the project that took four years to resolve.

Donors agencies should not finance programs that are planned without adequate research even if expensive. Program plans should demonstrate that they can meet local needs (established by field research) and in ways that take best advantage of existing local resources (established by researching the linkages between the small business sector and other sectors of the economy).

b) Models from Outside are Imposed

A major theme that emerged from the evaluation of first generation small business programs was that their designs were ineffective because they were inspired by models from other parts of the world which were little adapted to the realities of the local context. More recently the the dramatic success of Asian credit institutions such as the Grameen Bank and BKK in Indonesia have inspired donors to see how they can adapt similar designs and methodologies to the African context.

As noted above, Sahel small business programs are designed with little data so their conceptors have no other alternative but to reformulate "success stories" from elsewhere.

But this has its limitations, as the evaluators of first generation programs pointed out. For example the Grameen model, built on a structure of state owned banks, operating in a densely populated and intensively farmed area, employing well educated staff at extremely low payscales, is difficult to transpose into a Sahelian setting where none of these elements are similar. APP's Burkinabe General Manager went on a recent study tour to Bangladesh to look at the Grameen Bank. Although APP's objectives as an organization are very similar to those of Grameen, he was reluctant to adopt its model because there were so many cultural differences between Bangladesh and Burkina.

The success of the Asian programs is because of their ability to serve tens of thousands of clients. In the Sahelian countries, traditional subsistence economies with highly dispersed populations and a lack of infrastructure and adequate institutions, such services would be hard to deliver even if there was a large enough volume of clients to use them.

To speak about the Sahel countries as a single unit is to place greater importance on their resemblance than their diversity - each Sahel country has its own unique history and tradition. Some recent studies, for example into informal credit mechanisms, are now giving us a slight understanding about how certain groups perceive and use credit, and how this differs from place to place.

In our opinion, one should be cautious about trying to transfer Asian or Latin American models to Africa:

Donor agencies should establish the facts about how small businesses operate in a region or country, and understand how credit markets function, and what their other service needs are, before deciding how to apply lessons from other continents.

c) Project Plans are full of Changing and Conflicting Objectives

As discussed in section 2.ii, donor agencies have various different objectives for their small business promotion programs as follows:

- Poverty Alleviation/Social Equity
- Economic Growth
- Employment Generation
- Structural Change in the Private Sector
- Institutional Development

All of the current programs have two or more of these as their stated goals. Unfortunately these objectives are mutually conflicting, for example, a program promoting business growth cannot at the same time promote equity by concentrating on the smallest enterprises. Nor are these smallest enterprises the ones that create employment, neither are the ones that create employment (manufacturing firms) necessarily the same firms likely to generate economic growth.

The confusion created between different types and sizes of firms is nothing to that created by the targeting of sectors. Donor agencies like to think about sectors because their organizations are structured in this way. For example, programs are initiated to promote "agriculturally-related" businesses but interpretation of this classification, beyond the obvious input salesmen and produce traders and processors, is almost impossible (e.g. is a jeweller classified as a manufacturer of rural savings instruments?). In any case real people in the Sahel do not live in sectors as resources are fungible between different activities such as agriculture, commerce, housing, and health.

In addition to these objectives all programs have the goal of institutional sustainability or privatization (a vaguer concept). This means, for example, that as well as promoting social equity, programs have to make money at it.

When the Kaolack project started, there was tremendous disagreement between members of the management team because the implementation strategy, designed following a survey of 300 local businesses, proposed to develop a self-sustaining loan portfolio and de-emphasize the "agriculturally related" business focus (because local business owners expressed reluctance to get involved). This strategy was rejected by some because it excluded the poorest, placed no special emphasis on women, and was not agriculturally oriented.

With some programs, donors change their objectives in mid-implementation. VITA Chad, for example, was set up as a welfare program to assist the reconstruction of N'Djamena. Two years later the program developed an agricultural component (because its phase 2 funding had a food production bias). Two years after that, USAID wanted the program to become self sustaining, which involved reducing the staff from 30 to 19 and disbanding the agriculture component.

Programs are full of conflicting objectives because they are designed in committees, and often have to satisfy the requirements of many different departments within an agency. The saying that "A camel is a racehorse designed by a committee" is appropriate in this case. Programs change their objectives in mid-course either because funding sources change, or because initial objectives were ill-considered so donors start "tinkering with the mechanism".

Donors must closely consider program objectives at the planning stage, being aware of a potential for conflict between them. Objectives may be prioritized; a **program's principal objective should be precise** and must be **attainable within the timeframe of the project.**

d) Projects have Heavy Cost Structures

Donor projects have almost always been costly to implement. They have usually hired more expatriates than necessary, been lavishly supplied with vehicles and equipment, paid prices over market value for rent and local purchases, paid local salaries way above the market rate, been generous with per diems and other personnel allowances, and been heavily supplied with expensive outside consultants.

These kinds of policies were harmless enough for projects to construct bridges, for example, because when the building ended the project closed. For small business credit programs seeking self sustainability, however, heavy project cost structures are a cancer almost impossible to get rid of.

APP in Burkina Faso has experienced both extremes of this situation. In the good old days, APP's staff were some of the best paid in the country, with the largest offices in the region, who travelled frequently on mission in project vehicles. Today there are half as many staff, paid an average wage; the office is now somewhat empty and dilapidated, and there is one vehicle which is used very economically. The organization today is more efficient than it was before, but lacks resources to work with like loan funds.

Waste in such projects usually has more to do with muddled objectives than anything else. Most of the current programs have vague plans for institutionalization, but neither program staff nor donor sponsors can say with any certainty where today's programs will be in three years time.

Donors must be clear when planning programs, that when institutionalization is a goal, they do not adopt a "wait-and-see" approach. Those parts of the program that are supposed to continue after the project should be lean, and sustainable under non-subsidized conditions.

Local pay-scales should be at market rates, overheads on rent and equipment should be economical. Per diems, and other project perks should be kept to a minimum. In addition, projects should phase out leaving behind functional equipment, not parking lots full of broken-down vehicles.

e) Timeframe of Projects is Always Short-Term

Often, donors plan projects with very short time-frames on the basis that funding can be renewed if results are being obtained. Sometimes these timeframes are as short as one or two years. The EDF program in Mali was initially funded for one year with further funding contingent on results, whereas the Kaolack project as a four year venture took much of the first year conducting research, planning and training field staff.

Once a project has begun (unless it is managed with total incompetence or involves criminal activity) it is almost certain to be extended once and possibly more, as long as funds are available. This is because project objectives are so muddled and broad that evaluators (often a benign lot) can always find some positive outcome, and can always find ready explanations for the shortcomings. Another reason is that it is much easier for donors to keep funding an old project than to put a new project through the bureaucracy. As hope springs eternal in the human breast, projects go on for a long time before donors accept that they will never get off the ground.

So far donors have not chosen to implement well researched, well designed, longterm programs, with simple, unconflicting, attainable, quantifiable, objectives. Instead they have chosen to dabble on the short term. We believe that a change is desirable. In our view:

> Donors should plan programs with timeframes long enough to allow them to attain objectives (possibly 10 years or more). The timeframe should be planned in phases, and each phase should have quantifiable and attainable targets. Programs should be evaluated at the end of each phase, with further funding contingent on attainment of targets.

f) Program Planners Ignore Macro Issues

Programs are started with simple rationales. For example, credit programs are initiated because small businesses lack access to credit. However, small businesses already exist, and somehow find the means to start-up and expand independently, but this detail is never explored before programs are implemented. Nor do programs take issues of local purchasing power or market growth into account, but these are more critical for small business growth than the provision of support services.

Also program planners ignore issues such as the regulatory environment, the CFA factor and general economic trends. Thus the Niger Counterpart Fund through CARE started a program to assist artisanal manufacturing in Niger at a time when dirt-cheap manufactured goods were flooding across the border from Nigeria. USAID through VITA started a program offering long term credit for fixed capital investment in a country at war. USAID through the Kaolack program tried to promote the sale of fertilizer by the private sector, when at the same time it had just made the government remove the subsidy on fertilizer so that farmers refused to buy it.

The program planning process should take more account of macro-economic conditions, otherwise objectives are fixed that are unattainable. Better research data should help.

g) There is Inadequate Co-ordination Between Donors

Up to date, there has not been much evidence of competition between small business programs in the Sahel countries. This is because the number of interventions has been fairly limited, but this situation is changing. In Maradi, Niger, CARE's employment and income generation project makes loans for which it charges interest, and expects to be repaid. An ILO program in the neighboring region of Zinder is providing loans to blacksmiths, but is only requiring its clients to repay 80 per cent of the loan value. A UNICEF program in the Maradi region is giving away CFA 20 million worth of millet mills. CARE's clients have already expressed some confusion.

Presently, more donor agencies would like to initiate programs in the Sahel. It is now important, particularly for those programs wishing to provide loans and other services at market rates and develop local institutions, that newcomers do not dump cheap credit and free services on the market. Avoiding such problems in future will require closer coordination and foreword planning between donors than has existed in the past.

Although we are not sure that donors will agree to do this, we think that:

They should consider setting up a steering committee whose function is to coordinate different small business promotion activities throughout the Sahel countries. Such a committee could help facilitate a constructive overlap between projects, and help to mitigate any conflict of territoriality or of interest rates. This committee could also coordinate research activities and disseminate data, and could function as a lobby group before governments and the central bank.

3. Problems of Project Management

a) The Burden of Donor Procedures and Protocol

Commercial banks borrow and on-lend so their funds always have a cost allocated to them. Donor credit programs (potential local credit institutions) are provided with free funds. In fact "free" is a relative term because for the privilege of using this cost-free funding programs have to follow donor procedures and protocol which impose a significant burden on management time.

Donor reporting requirements [discussed in 3. a)] are the most onerous procedures. Other procedures vary from donor to donor. USAID for example is concerned by the source and origin of purchases made with its funding. The Kaolack program had a client who wanted to buy a small machine to manufacture egg-trays from recycled newspaper. This machine was manufactured in England. In order for the client to purchase the equipment with USAID funds, the program had to get a signed waiver from the USAID Director in Dakar. To obtain the waiver the program had to get competitive bids from U.S. manufacturers of similar equipment, and have a search carried out for alternative U.S. sources by a voluntary agency. This procedure took three months. By the time that clearance was given, the client had long since started a business making wooden beds.

Visitors also take up a large amount of management time. In Kaolack, an average of 3 man-days each month was devoted to visitors during 1987 and 1988. Now the program restricts visits to Friday afternoons only. In the isle of Dominica, in the West Indies, the National Development Foundation, a small business promotion agency, became so overwhelmed by visiting consultants that it started charging them U.S.$100 per visit. These payments offset the cost of public relations.

Efficient management of projects for small business promotion entail that:

<u>Donors should be as flexible as possible with regard to procedures, and leave all operational decision making to program managers.</u>

b) Donors Require a Reporting System which is not Suitable

- Reporting

All donor projects use a similar type of cost-based financial reporting system. These reporting systems date back to the early infrastructure projects, and track budget and expenditures. Particular importance is placed on documentation of expenditures (receipts).

Such systems are not well suited to revolving credit programs where reflows from loan repayments, and revenues from interest and fees, disturb the logic of the system. Worse still, these systems cannot produce financial reports which indicate performance (such as profit and loss, accounts overdue etc). Real financial institutions use double-entry accounting systems which track a dynamic activity, and which are able to produce situation reports on a timely basis. Such reports are essential to the management of any credit activity. At present, programs have a "project" financial reporting system (which tracks where the grant funds came from and how they were spent) and an additional "loan tracking system". In order to obtain some of the performance indicators for management purposes (and increasingly for reporting purposes to donors) program staff are obliged to pull figures out of the "project" system and re-work them. Consequently the reports essential to the management of a credit program (balance sheet, profit and loss statement, ageing report on overdue accounts, performance ratios) are cobbled together and are often incomplete or missing.

Because all reports do not flow out of one system, program financial management becomes a schizophrenic affair where two different sets of figures are being produced, where "donor" reports take priority but are useless for management purposes, and "program" reports are useful but non-priority and difficult to reconstitute.

Program managers normally spend at least 10 per cent of their time preparing reports. Such reports are monthly or quarterly and include "donor" reports, performance statistics, and long texts about visits, seminars and other events. By comparison, bank reports to head offices are several pages of figures (produced automatically by the accounts system) with a page or two of explanatory notes.

- Audits should be more frequent

Evaluations and audits are quite separate and different exercises. Audits look at financial management, ensure that funds have not been misappropriated, and recommend ways of improving the financial management system. Evaluations look at much broader issues of social and economic impact, and of program strategy. Recommendations usually focus on strategy changes, and evaluations are normally closely associated with program re-funding. Evaluations are often very subjective because programs lack the data to allow evaluators to conduct such exercises as cost-benefit analysis; also because donors dislike "bad news" and prefer to see the fruits of their investments in positive terms, where any kind of attainment of program objectives is labelled a "success" and errors are called "lessons learned". There has been a recent tendency for the evaluation of USAID credit programs to become increasingly objective, looking at results in terms of costs and revenues, but such efforts have been limited by the type of financial data that programs can provide.

Programs are usually more frequently evaluated than audited; and not audited enough. Given the nature of a credit program's function (managing the movement of funds), audits usually provide much more practical information and recommendations than evaluations. For example, the Kaolack program was audited more than three years after its start-up, by which time there had already been problems of misappropriation of funds due to a weak management system. An earlier audit would have certainly shown up these weaknesses.

At present there have been no standards of procedure agreed within or between donor agencies for establishing loan repayment rates. When a credit program is reported to have a 95 per cent repayment rate, this can mean that the program is well managed and that all the clients are paying back their loans successfully and only 5 per cent of payments due have not been made; it can also mean that:

- a number of clients are in difficulty, but the credit program managers have given them a grace-period to sort their problems out;

- a number of clients are in difficulty but the credit program has given them a second loan to help re-establish themselves;

- a number of clients are in difficulty so the program has rescheduled the amounts they owe each month.

In all of these cases, credit program managers are maintaining theoretically high loan repayment rates, at the cost of letting large amounts of potential bad debts build up off the books.

We think that donors should consider the following suggestions:

- Donor agencies should discontinue requiring their small business credit programs to use the budget/expenditure financial reporting system, and set them up with the type of reporting systems used by financial institutions.

- Program evaluations should be less subjective, and more quantitative (better program self-monitoring and results-oriented financial management systems will help). At the same time evaluations should be used as constructive exercises. Donor agencies should encourage evaluators to be less optimistic and more critical. In turn, donors should be less anxious about mistakes made, because these provide valuable learning experiences.

- Credit programs should be audited on a frequent basis, both to ensure security of funds and to provide financial management feedback.

- Donor agencies should develop standard procedures on reporting loan program repayment rates, payments in arrears, and other details.

c) *Difficulty Recruiting Effective Expatriate Staff*

Donors usually have difficulty in recruiting effective expatriate staff for field posts. The experienced and capable inevitably gravitate to headquarters, and family people prefer a life closer to home.

Three other factors diminish the quality of staff selected from the available pool of candidates. The first is that donors usually contract out the management of small business programs to NGOs or firms on the basis of competitive bid. Expatriate salaries are often a hotly negotiated line item and resulting salary levels are often unattractive to experienced candidates. Second, there seems to be a preference for fielding a larger team (2 to 4 persons) of less experienced people, than one or two experienced individuals. Third, there are relatively few candidates with both development project and business experience. In a choice of candidates with one or other of the backgrounds, donors usually prefer project experience. It is possible that candidates with a business background may be more useful.

Two candidate profiles seem most appropriate to the management of successful small business promotion programs and are complementary: an entrepreneur, with experience starting up and running small businesses, responsible for program outreach, market development and communication; and a financial manager, with experience in credit, responsible for supervision and reporting on all finances and running a "tight ship". Candidates with these profiles are not easy to find.

Donor agencies should note that the success of programs is closely linked to the quality of their management staff. Programs need one or two competent expatriate management staff, instead of more less competent individuals. Fewer expatriates mean large savings can be made in housing, leave travel, and other expenses. On the other hand, to attract the right sort of managers appropriate salary levels should be offered, and great care involved in their selection.

d) Difficulty Recruiting Effective Local Staff

The present educational system in the Sahel countries is (still) geared to producing candidates for the civil service. Also university graduates often have job and salary expectations that exceed their capabilities. An alternative is to recruit staff with a lower level of education and train them. Either way, recruiting local staff for small business programs is a hit-or-miss business.

This situation is often made more difficult by a degree of cynicism with which local people regard projects. Projects come and go, but well qualified people with career aspirations want long term appointments, preferably for life. Thus even when salary levels are higher, prospective employees will prefer to stay in a sure but more lowly paid job.

Also in their early days, projects tend to attract marginal individuals. Because of cultural factors it is often difficult to get valid character references, such is the power of the extended family. Often projects themselves are to blame for not doing adequate research. Projects often make uninformed staff selections. For example, an assistant bookkeeper with one of the current programs left under suspicion of misappropriation of funds. It later transpired that he had left previous jobs with two banks under similar circumstances. He now has a new job in the accounts office of a large donor agency in the capital city.

Expatriate program managers often grow sentimental when faced with having to dismiss staff members. For example, APP in Burkina Faso managed to increase its personnel from a maximum of 10 by the end of phase one, to 54 by the end of phase two. This was because, as the program progressed, the expatriate managers wanted to hire better qualified personnel while avoiding the psychological and the political pain of laying off the old ones.

This is why a commercial approach helps for more rational staff management. Comparing results with cost of salaries (which are always the highest operating cost component in programs) is always an important exercise. One program, the Kaolack program, has built in a remuneration system whereby staff receive a basic salary as well as an additional bonus based on results.

Program managers should be scrupulous about recruitment. During the first two years, staff should be recruited on a short term basis and staff evaluation should be conducted regularly; those persons who are not performing well must be let go.

e) Administrative Problems with Local Legislation

Just as the regulatory environment affects private enterprise, it also extracts its price on program management. Personnel issues are complicated by the labor code and may involve complex negotiation with the Bureau du Travail.

VITA Chad, for example, dismissed a watchman for abandoning his post and was subsequently taken to court where the employee was awarded substantial damages.

Programs that use the courts suffer the inefficiencies of the legal system which is slow, uncertain and costly. Both the Kaolack and Chad projects have had cases of theft by bailiffs who have received late loan payments on the projects behalf, and not handed them on.

4. Problems of Project Technical Issues

a) Interest Rate Calculations are not Understood Locally

All of the current credit programs calculate interest on their loans on a monthly basis according to the balance due. This is the calculation used by banks in Europe and France, and required in the CFA countries by BCEAO regulations. A simple interest calculation is easy to understand: CFA 10,000 at 24 per cent a year costs CFA 2,400 for a year. But when a CFA 10,000 loan is paid back on a monthly basis, and the interest (24 per cent per year) is calculated monthly on the declining balance due, the total interest due at the end of the year is CFA 1,350.

How 24 per cent interest becomes 13.5 per cent interest, is often difficult for small business owners in the Sahel to grasp. Most of the current programs clients do not bother to get lost in the details, they know that, by rough calculation, such programs offer a good deal. The concept of money over time is not well understood by business owners, who think of interest as a ratio.

We would propose therefore that:

Credit programs should apply simple interest, which is easier for clients to understand, and simplifies loan management.

b) Credit is often Directed or does not Correspond to Local Needs

To date, whenever the donor agencies have provided lines of credit for on-lending to farmers or small businessowners there have always been conditions attached to how that credit must be used. Donors have been biased in the following ways:

- Sectorally Biased

Donors have provided credit to the Agriculture Sector (farmers, farm related businesses), the Rural Sector (blacksmiths, rural artisans), the Industrial Sector (industrial estates), the Fisheries Sector, and others.

- Structurally Biased

Small business credit has usually been provided exclusively to manufacture and service enterprises (who do and make things), not to commercial enterprises (who buy and sell things). Donors have also preferred mediumterm credit for equipment purchases much more than short term working capital loans.

- Morally Biased

Credit programs often have moral biases (i.e. selling fertilizer is good, selling beauty products is bad). In the case of voluntary organizations relying on churches back home for funding, this is understandable. Why an international donor agency should make such distinctions is less clear.

Donor efforts to channel credit have not been a success. Despite the donor's best intentions, beneficiaries have ended up using the money for what they need. The CLUSA program in Niger, for example, began to provide credit initially to help rural cooperatives privatize the supply of agricultural inputs. But the cooperatives did not want to become fertilizer merchants, they wanted to open small grocery stores. Fortunately, USAID allowed CLUSA to expand the scope of its program to let people do what they wanted.

Because resources are so readily transferred from one activity to the next, credit programs using any kind of loan analysis procedure must be responsive to demand, otherwise they end up preparing fictitious loan proposals. In Kaolack, for example, almost all of the bad debt situations arose when clients diverted funds to other activities than those planned for in the loan dossier.

Nor has the donor preference for long-term credit been shared by Sahelian business owners. VITA Chad laments that after one year, instead of reinvesting profits, clients use the funds for other purposes.

Donors should provide credit according to client needs, and not impose limitations on loan terms or use of funds, because ultimately such restrictions add to the lender's risk.

c) Credit Programs do not have Savings Components

Recent literature has referred to credit without savings like walking with one leg. Credit programs, with the exception of the EDF program in Mali which has captured a small pool of savings/guarantee funds, have not yet incorporated savings components. Other programs have, such as the Caisse Populaire in Senegal (also based in Kaolack) which works with village savings groups, collecting their funds on a weekly basis, accounting for them and depositing them at the bank. A group itself selects clients for small loans from its own fund; these can be for any purpose but are usually for house construction or agriculture, and involve tiny amounts. APP, Burkina Faso is also contemplating how to incorporate a similar savings activity into its rural based program.

In the Mali program, donor funds are called "cold" funds because these have no personal attachment and may even be lost without suffering; local savings funds are called "hot" funds because these belong to known individuals and are not lost until all manner of traditional, legal and other pressures have been applied.

Because attracting local savings and investment is important both in terms of increasing available funds, as well as involving local participation in decision taking and risk sharing, donor agencies should now seek to use program credit funds as a means of leveraging local investment.

5. Problems of Credit Program Impact

In spite of some successes, it is important to note that the impact of recent small business credit programs is very limited. Whereas Asian credit programs such as the Grameen Bank have assisted tens of thousands of clients, the Sahelian programs have only assisted a few hundred. Some observers even go on to say that the Sahel credit programs have reached an infinitesimal part of the population with benefits that cannot be sustained and that their apparent successes are having a negative impact by giving the donor agencies a cozy glow of contentment, which diverts their attention away from the real issues such as the growth-limiting constraints on small business of the legal and fiscal environment.

Impact on employment, often one of the major objectives of small business credit programs has been unclear. Whereas most programs have produced statistics on the number of jobs they have created, none have gone on to monitor the permanence of these jobs. In the Sahel "unemployment" is the reserve of the educated and the previously employed from the formal sector. For the mass of the population, **underemployment** is the real problem, but this is an issue without political weight and is not directly addressed by programs.

Studies show that indiscriminate promotion of small enterprises may achieve short run employment gains at the expense of longer run efficiency. This has been the experience, for example, of Senegal's Maitrisard Program, where unemployed graduates have been provided with low interest loans to start businesses in sectors that were already overcrowded (bakeries, taxi firms, etc.).

As far as business development is concerned, credit may only be having a limited effect. This is because social pressure to redistribute capital means that money is either consumed or reinvested in an inconspicuous way. The tax collector provides another motivation for businesses to keep a low profile. At the same time credit programs are only assisting a few of these slowly developing businesses and sustainability has been unachieved.

So why go on? Second generation credit programs have only been operational for a short time. They have been setting up during an uncertain period where governments have committed themselves to liberalization of the economy, but have been reluctant reformers. However, credit is starting to be an important link with partners and clients in the small business sector, and the platform from which donors and small business owners can begin to deal with the issues constraining small business development.

6. Problems of Institutionalization

Institutionalization of Program Activities Faces Constraints

All current small business programs (with the exception of APP, Burkina Faso) are pilot projects, and are now seeking an institutional form for their continued existence. Some are adopting an incremental or piece-meal approach, spinning off activities. The EDF program in Mali, for example, has created the investment club of Segou merchants Le Segovien, as well as a federation for its savings/guarantee groups. The SRFMP, Dakar,training program is setting up autonomous consultancy/training associations for different small business sectors. Other programs, however, are taking a comprehensive approach to formally incorporate their activities. Programs trying to establish themselves formally are meeting the following constraints:

- Existing Formal Institutions are not Adequate

Commercial banks do not want small business investments, nor wish to get into the small business credit market even through intermediates. The development banks, cradle of the Asian success, have already demonstrated their incompatibility with the task, and are all bankrupt. Non Governmental Organizations in the Sahel, thanks to their own historic evolution and government restrictions, have developed as conduits of grant money from Europe and America and, unlike similar organizations on other continents, have a restricted view of their role as providers of grant based largesse, and a limited experience with credit and business. As this exhausts the list of possible institutional partners, small business programs seeking institutional forms are obliged to create their own structure.

- Central Bank Regulations impose Difficulties

According to BCEAO regulations, banks and financial institutions must have a minimum capitalization before they can be officially authorized to lend and borrow. These present limits make the creation of small banks virtually impossible.

- Formal Investors are not Interested

Programs that have tried to attract direct local investment (and have not used small local associations as the vehicle) have failed to raise any interest. When the Kaolack project explored the possibility of selling shares to wealthy local businessmen on a charitable basis, they said there were more pressing charitable needs closer to home. If small business credit institutions adopt western structures, they will not attract formal participation until they offer risk-free investments with assured dividends.

- A Credit Institution as a Private Enterprise Faces Regulatory Constraints

As well as central bank regulations, any credit or service activity incorporating itself as a modern enterprise falls liable to the constraints and vagaries of the regulatory environment. Current pilot programs have been shielded from the tax system and the worst elements of the labor code.

- Donors do not Buy Shares in Private Financial Institutions

Multilateral donors (e.g. World Bank, African Development Bank) must usually work through public agencies. Whereas bilateral donors (e.g. USAID, Caisse Centrale) have provided grants to NGO credit programs as well as profitseeking financial organizations such as La Financière, and have provided loans to private enterprise (e.g. PROPARCO), they have not yet taken equity investments in financial institutions. This means that turning grant funded credit programs into private enterprises has no precedent in the Sahel.

- Setting up Locally Managed Financial Institutions raises Issues of Accountability

Expatriate supervisors (usually) assure the accountability of credit programs as pilot activities. Turning such programs into local institutions implies handing over funds to local management. Previous experience of misappropriation of resources in earlier programs has made donors question the wisdom of handing over ("cold") funds to a new institution without adequate supervision. When the Sikasso office of the EDF program was handed over to a Malian manager, he was immediately approached by local personalities for loans under veiled pretexts. Such situations are a normal part of Sahelian life, which local funds managers often need help to withstand.

Pilot projects for small businesses have thrown light on these issues of institutionalization. Solutions have been postponed but the time has come to seek ways out of present uncertainties:

<u>Programs should involve local participation at an early stage, and build up a local constituency of investors and interest groups who may then start to take over parts of the program as local activities. Developing a program to "hand over" cannot succeed easily. So far no program has developed into a viable institution, so little is known about the surest ways to proceed in this regard.</u>

<u>Donors should start trying to influence change in regulatory constraints to make institutionalization of local activities possible.</u>

7. <u>Problems of Making Sahelian Credit Programs Sustainable</u>

Characteristics of Successful Self-Sustaining Programs

In recent studies of small business credit programs round the world, only a handful cover all, or nearly all, of their operating costs. This is not encouraging news for the Sahelian countries where many economic and geographic factors are less favorable than elsewhere.

A recent stock-taking of microenterprise credit projects funded by USAID identifies the following characteristics in successful self-sustaining credit programs:

- They aim to improve marginal performance of client businesses, without trying to transform them into more complex enterprises;

- They usually provide small working capital loans with efficient screening and rapid disbursement;

- Beneficiaries are poor but not the poorest of the poor;

- Client benefits are usually in the form of increased income rather than employment creation;

- Credit organizations adopt a businesslike attitude towards achieving a large volume of loans in a market area large enough to gain economies of size;

- They charge interest rates high enough to cover operating costs, risks and inflation.

Our analysis of six projects for small business promotion shows that the success factors of successful self-sustaining credit programs often conflict with common donor objectives of employment creation and the transformation of small firms into more complex industries.

So we will submit that:

<u>Even if credit program sustainability is a difficult goal, credit programs should adopt it anyway. Such programs get better results than others. Donor agencies should not, however, lose sight of the fact that few of such programs can be fully self-supporting over the medium term.</u>

PART II

A SUMMARY OF CURRENT PROGRAMS

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NAME OF PROGRAM:	VITA-PEP, Chad
Program Start Date:	March 1984
Number of Phases so far:	3
Present End Date:	June 1990 (extension under negotiation)
Objectives/Purpose:	- Assist reconstruction and resettlement by supporting manufacture and service business - Stimulate local food production (phase 2) - Become self-sustaining and institutionalize as NGO (phase 3)
Number of Professional Staff:	Expatriates - 2, Local - 7
Budget:	$ 3,800,000
Of Which Loan Funds:	$ 638,000
Cost to Lend $1: ($1cost$1=100%)	250 %
Interest Rate + Fees:	12 %
Number of Loans:	225 (March 84 to Nov 89)
Preferred Loan Type -	
. Artisan:	64 %
. Commerce:	10 %
. Farming:	26 %
Total Loans Made:	CFA 365 million
Average Loan Size:	CFA 2.37 million (business loans)
Repayment Rate (declared):	70 %
Assets:	-Only formal source of small business credit -Well motivated staff
Liabilities:	- Govt. refuses raise in interest rate - Risky environment for business investment - Management to meet social objectives means high cost delivery of services and decapitalization of loan fund.

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NAME OF PROGRAM:	European Development Fund Program, Mali
Program Start Date:	October, 1987
Number of Phases so far:	2
Present End Date:	October 1992
Objectives/Purpose:	Generate employment by creating or developing modern small businesses - Emphasis on assistance to unemployed graduates and redundant civil servants - Creation of an "entrepreneurial class"
Number of Professional Staff:	Expatriates - 4 (plus 3 UNIDO technical advisors), Local - 40
Budget:	ECU 14.8 million ($ 16.8 million)
Of Which Loan Funds:	ECU 7.4 million ($ 8.4 million)
Cost to Lend $1: ($1cost$1=100%)	100 % (not including provision for loan loss)
Interest rate + Fees:	About 25 %
Number of Loans:	213 (Oct 87 - Nov 89)
Preferred Loan Type -	
. Production:	17 %
. Transport:	4 %
. Commerce:	14 %
. Farming:	35 %
. Services:	30 %
Total Loans Made:	CFA 732 million
Average Loan Size:	CFA 3.44 million
Repayment Rate (declared):	About 90 %
Assets:	- Tested an effective savings/guarantee mechanism - Mobilized local investment funds - Cultivated a strong local support network - Maintained a high loan repayment rate
Liabilities:	- High cost of providing services raises issues of program sustainability in its present form - Longterm viability of new business start-ups and jobs created as yet uncertain.

NAME OF PROGRAM:	CARE Maradi Employment/Income Generation Project
Program Start Date:	July 1988
Number of Phases so far:	1
Present End Date:	June 1991
Objectives/Purpose:	-Develop employment -Improve artisans technical knowledge and output -Improve profitability of small businesses -Promote local manufacture of consumer goods -Introduce technologies for transformation of agricultural produce -Enhance quality of rural life and encourage growth of local economy
Number of Professional Staff:	Expatriates - 2 (plus 1 junior associate), Local - 14
Budget:	$ 2.4 million
Of Which Loan Funds:	Not Specified
Cost to Lend $1: ($1cost$1=100%)	Not Available (but high)
Interest rate + Fees:	12 % to 15.5 %
Number of Loans:	183 (Jul 88 to Nov 89)
Preferred Loan Type - . Artisan: . Commerce:	 70 % 30 %
Total Loans Made:	CFA 36.5 million
Average Loan Size:	CFA 200,000
Repayment Rate (declared):	Above 90 % (but early days)
Assets:	-Local financial institutions involved
Liabilities:	-High cost of services due to strong welfare objectives has implications for sustainability -Promotion of manufacturing impossible due to exchange rate factors -Local financial institutions do not share any risk with program.

NAME OF PROGRAM:	APP Burkina Faso
Program Start Date:	1977
Number of Phases so far:	3
Present End Date:	Now independent NGO
Objectives/Purpose:	-Encourage community development in program zone -Promote income-generating activities in rural areas -Sustain program activities from loan revenues
Number of Professional Staff:	Expatriates - 0, Local - 18
Budget:	$ 2.7 million (1981-87), now few subsidies
Of Which Loan Funds:	$240,000 (present loan fund CFA 26.3 million)
Cost to Lend $1: loan($1cost$1=100%)	51 % (not including head office cost, and loss)
Interest rate + Fees:	About 19 % (commerce) or 14.5 % (agriculture)
Number of Loans:	182 (under new system Jan 1989 to Sept 1989)
Preferred Loan Type - . Commerce: . Farming:	 84 % 16 %
Total Loans Made:	CFA 27.6 million (Jan 1989 to Sept 1989)
Average Loan Size:	CFA 152,000
Repayment Rate (declared):	Above 80 %
Bad Debts Written Off:	About CFA 67.3 million (accumulated 1981-88)
Assets: status	-Independent local organization with competent staff that has survived difficult transition from project -Long operating experience -New written lending procedures and group guarantee mechanism
Liabilities:	-Lack of operating funds and low revenues from lending due to decapitalization of loan fund -Management of resources for highest social returns, not for highest financial returns, leads to further decapitalization of loan fund.

NAME OF PROGRAM:	The Private Enterprise Credit Agency, USAID, Kaolack, Senegal
Program Start Date:	September 1985
Number of Phases so far:	2
Present End Date:	August 1992
Objectives/Purpose:	-To promote growth and profitability of established (traditional) small businesses -To manage the program so that it can cover costs and loan losses, and become a self-sustaining credit institution
Number of Professional Staff:	Expatriate - 1, Local - 11
Budget:	n/a (part of larger project)
Of Which Loan Funds:	CFA 484 million
Cost to Lend $1: ($1cost$1=100%)	17 % (not including expatriate salary and costs, or provision for bad debts)
Interest rate + Fees:	24 %
Number of Loans:	483 (Sept 1986 to Oct 1989)
Preferred Loan Type -	
. Production:	9 %
. Services:	24 %
. Commerce:	42 %
. Farming:	25 %
Total Loans Made:	CFA 626 million (Sept 1986 to Oct 1989)
Average Loan Size:	CFA 1.3 million
Repayment Rate (declared):	Above 90 %
Assets:	-The program lends according to client businesses needs (not constrained by multiple objectives) based on quality of the demand, -Efficient credit management procedures have been developed, -The program is covering a major proportion of costs from revenues.

Liabilities:

-The program has no local participation from either institutions or businessmen, nor has it chosen a form or structure into which it can evolve at end of project

NAME OF PROGRAM:	Sahel Regional Financial Management Program, Dakar, (USAID)
Program Start Date:	July 1986
Number of Phases so far:	1
Present End Date:	December 1990
Objectives/Purpose:	-To improve financial management in the private and public sectors, -To promote the institutionalization of financial management systems, and the capacity for training others in the use of such systems
Number of Professional Staff:	Expatriate - 1, Local - 4
Budget:	About $ 500,000
Of Which Loan Funds:	n/a
Cost to Lend $1: ($1cost$1=100%)	n/a
Interest rate + Fees:	n/a
Number of Loans:	n/a
Preferred Loan Type:	n/a
Total Loan Amount:	n/a
Average Loan Size:	n/a
Repayment Rate (declared):	n/a
Assets:	-Financial management systems are tailor made to meet needs of businesses in specific sectors -The program has set up associations of local businessmen to deliver training and consulting -Clients pay for training and consulting service -One consulting association is almost self-sustaining
Liabilities:	-Training and follow-up services are expensive, and costs cannot yet be covered by most consulting associations.

VITA - PEP CHAD

PROJECT HISTORY

The Private Enterprise Project, funded by USAID, started in March 1984 under the management of Volunteers in Technical Assistance (VITA), a U.S. private voluntary organization in the region of N'Djamena. The city suffered considerable damage from warfare in 1982 and the project was intended to assist reconstruction and resettlement by supporting the establishment and development of manufacturing and service businesses. Hoped for impact was the creation of employment, proliferation of income generating activities and provision of goods and services to the population. The project was designed to provide loans and technical and managerial assistance to businesses. It was staffed by two expatriates and eight Chadian professionals.

When the first phase of the project ended with a favorable evaluation in February 1987, USAID funded a second phase as part of an umbrella project to support private voluntary organization activities.

Because this umbrella project had an agricultural focus, VITA-PEP took on the additional objectives of stimulating local food production.

An agricultural technical support unit was created, staffed by an expatriate and two locally recruited agronomists, and additional loan funds were provided through USAID local currency funds. The project began extending small loans to farmers in the region of Bongor where the FAO and other donors had built irrigated rice perimeters. Credit was provided for purchase of ploughs, carts and traction animals.

These farm loans were ill-fated. FAO closed its program and VITA-PEP lost direct contact with its clients. The farmers stopped repaying.

When phase two began, USAID started to raise questions about the financial self-sustainability of the project. Although self sustainability had never been an objective in the design, VITA-PEP was seen as making an important contribution to the local economy. Creating an autonomous local institution when the project ended seemed an attractive option. Unfortunately the operating costs of the project were so high that for every dollar that was loaned, $ 2.50 was spent and interest revenues only covered a tiny proportion of this cost.

Following an evaluation in 1988 a new strategy to cut costs and increase revenues was adopted, with the purpose of preparing the project for institutionalization as a Chadian N.G.O.. The agricultural technical support unit was disbanded and the project staff was reduced from 30 to 19. The project also took steps to try and increase loan volume including making loans not only to artisans and farmers, but also to merchants.

Phase 2 of the project ends in June 1990 and a third phase is currently under negotiation. The total project budget for phases 1 and 2 was about $ 3,800,000 of which $ 638,000 was loan funds.

THE PROJECT'S ENVIRONMENT

As one of the worlds poorest countries stricken by war and drought, Chad provides a challenging setting for any economic activity.

Events took a turn for the better during 1982 to 1984 when an end to fighting in N'Djamena allowed for reconstruction and this coincided with good rains. In 1985 drought returned, the world price of cotton (which at the time provided 80 per cent of Chad's export earnings) dropped by 40 per cent, and war with Libya intensified. During 1988 and 1989 peace and rain brought a temporary renewal to economic stability. As one of VITA PEP's loan officers explained " When we think things are going badly often these are good times. When the situation starts to improve we know it is time to get nervous."

Through the 1980's there were no government funds for social programs or productive investments. These were subsidized by donors or funded privately (schools, clinics etc) by local groups. Civil servants were paid at a reduced payscale (60 per cent) until January 1989.

The banks closed down in 1980 and a banking moratorium was declared under which all deposits and debts were frozen. Two commercial banks reopened in 1983 and provide basic services and highly secured short term financing through overdraft facilities to a few large traders and parastatal companies.

The principal source of formal credit for small business investments in Chad is VITA-PEP. The country's difficult economic situation, however, limits the demand for credit. This situation has been made worse by the governments need to raise revenues from taxes. For example, with intensification of the war with Libya during 1985 to 1987, the government tightened up on tax collection for the war effort. Businessmen with cash sent their money abroad and hid their assets as best they could. Such was the private sector's caution that VITA-PEP only made 12 loans in 1987 (compared with 48 in 1985, and 38 in 1986). Recently the government has sought to register and tax all small businesses with fixed premises.

Cameroon, a safe haven for CFA funds, and Nigeria, a source of cheap manufactured goods, are close-by. Most of N'Djamena's economic activity is clandestinely linked into this golden triangle.

HOW THE PROJECT WORKS

VITA-PEP has a single office in N'Djamena. It is managed by two expatriates and local professional staff including four loan officers, an accountant, a loan recovery agent and an administrator.

VITA-PEP sees itself as managing a "development activity", providing services to small businesses of which credit is one. Its preferred clients are artisans (i.e. people who do things, not people who buy and sell things) and farmers. More recently VITA has begun lending to traders, but is nervous to be seen competing with local commercial banks, and is selective in the type of commercial activities it finances (i.e. the sale of agricultural spare-parts, not beauty products). New business start-ups can be funded but, following some bad experiences, VITA prefers to finance people with a previous track record, and the extension of existing business activities.

Any businessman wanting a loan calls at the office and is interviewed. If the activity conforms with project regulations, a loan officer prepares a dossier including detailed analysis of the existing business, the character of the client, and the viability of the proposed activity both technically and commercially, with financial statements. (Such analysis involves site visits and is reviewed by the director. A similar dossier professionally compiled for a commercial bank costs CFA 150,000 to 200,000)

Loan dossiers are reviewed by a loan committee of Directors and Loan Officers on a weekly basis, and are funded once all conditions are satisfied. Decision making is prompt (an average dossier takes one month).

Before a business is financed, VITA requires it to be formally registered and in order with the tax authorities (usually involving a payment of CFA 40,000 upwards).

Loans are granted for periods of 6 to 36 months and may include grace periods of 1 to 6 months, depending on circumstances. The interest rate is 12 per cent per year, which is calculated monthly on the balance due. No other project fees are charged (Bank equivalent interest rate plus fees are in the order of 15 to 25 per cent annually).

As security each client must provide a personal guarantor of proven means. In addition, equipment purchased by the project is secured by lien. All such guarantees are legally documented and registered with the Government, which requires a fee of 3 per cent of the loan value, and is paid by the client.

The client is required to open a bank account. Loan disbursement and repayments are made by transfer between client and project accounts. Project staff do not handle funds. The banks provide reasonably good service, issuing timely bank statements.

Once a client has received a loan he is visited on a monthly basis. According to the loan agreement he is required to keep books and these are monitored. The client is also given technical and management advice. Loan repayment is also monitored on such visits.

When repayments are late, clients are notified each 15 days by letter and the dossier is taken over by the collection officer. This person also handles all legal procedures in case of bad debts.

In cases where loans are not repaid because of misappropriation of funds or un-will, then the project initiates proceedings to recover its funds by legal means (a process that takes about two years).

RESULTS (MARCH 1984 TO NOVEMBER 1989)

The project has made 225 loans to date of which 72 were small farm loans in the Bongor region. These loans are categorized as follows:

	No. Loans	%	CFA Value	% Value
Services	70	31%	173,725,573	48%
Food Production	114	51%	96.145.177	26%
Fabrication	33	15%	60.092.830	16%
Commerce	8	4%	34.971.655	10%
	225	100%	364.935.235	100%

For the 153 small business loans made in N'Djamena the average loan size was CFA 2.37 million.

These loans created an estimated 832 jobs of which 536 were permanent.

Loan repayment since the beginning of the project is 70 % (amount repaid) of the value of payments due. Nearly half of the payments were made more than 60 days late. Because the project has no policy of declaring bad debts and write-offs, and because the reporting system doesn't show the arrears status of individual loans it is impossible to know exactly what proportion of the 30 per cent outstanding due is not recoverable. (The project managers believe about 10%).

Of the Bongor agriculture loans 25 per cent of the total is outstanding due, to a value of CFA 500.000.

At present, revenues from interest payments are covering 10 per cent of local operating costs (salaries, vehicles etc).

STRENGTHS AND WEAKNESSES

VITA-PEP is a well run organization with motivated and professional staff which has been consistently well evaluated by USAID and other agencies. It is the only formal source of credit to small businesses in the N'Djamena region.

The project was set up to meet welfare objectives. It provides free technical services and loans at low interest. Its cost structure (salaries, vehicles, etc) is heavy. It directs credit to enterprises that it judges will have "development impact". It does not get nasty with its borrowers if they pay late, as long as they have an explanation. Proceedings are taken against loan defaulters only when there is a clear case of misappropriation of funds and no repayment has been made for six months.

The project managers have modified some of these factors to meet USAID's new goal of self sustainability. Costs have been reduced. Lending criteria have been widened to include commercial activities in order to increase loan volume. Closer monitoring of bad debts has been initiated. But the Government will not let VITA-PEP increase its interest rate or to charge fees.

During 1986 after a senior functionary was refused a loan, three cases of non-payment that VITA was pursuing in court were suspended. The President of the Tribunal said that the project agreement signed between USAID and the Government of Chad made no mention of interest. He required VITA-PEP to provide proof that it was authorized to make such charges on its loans. Although the projects technical document discussed interest charges in detail, and although VITA had already won four previous court cases for amounts including interest payments, the situation was not resolved for 13 months. During this time VITA-PEP had no recourse to the law and clients stopped paying back. Finally an official amendment was made to the project agreement and so the rate was permanently fixed at 12 per cent. The Government is not open to renegotiation, although VITA-PEP feels that clients are willing and able to pay more.

VITA-PEP staff say that making loans without technical assistance would be impractical as such services are essential to create sound projects and reduce risk. Also technical service covering the cost of such services is not only a function of interest rate but of volume of loans made and of bad debts.

It is not clear that the small business credit market in N'Djamena under present circumstances can support a financially self-sustaining small business credit institution at any interest rate.

THE FUTURE

VITA-PEP approaches the end of its second phase with is future in the balance. No steps have been taken to turn the project into a local institution because financial self-sustainability cannot be achieved in the foreseeable future. USAID has not made a clear commitment to funding phase three.

The Government of Chad is presently negotiating a $ 22 million development program (PADS) with the World Bank. One component of this program is a microenterprise credit fund that the World Bank would like VITA to manage, however the Government is negotiating to manage the fund itself. One of the bargaining chips in the negotiation is the interest rate, which the Government wishes to lower "to assist the poor and needy".

Under present circumstances USAID, the government of Chad and the project managers have very different concepts about what the project does : if USAID accepts the Government version it will continue to subsidize the project ; if the government accepts USAID's version it will allow the project to raise its interest rate and operate on more commercial lines; the project management would prefer to steer a middle course between these two extremes. Before phase three begins and another donor joins the party such issues will need to be resolved.

PROJET D'APPUI A LA CREATION DE PME/PMI A L'INSERTION DES JEUNES DIPLOMES (BAMAKO, SEGOU, SIKASSO, MOPTI), MALI

PROJECT HISTORY

Le Projet d'Appui à la création de PME/PMI et à l'Insertion des Jeunes Diplômés started in October 1987 under the sponsorship of the European Development Fund (EDF) as a two year pilot initiative. The project was jointly managed by two private consulting firms : SORCA (Belgian) Dhonte and Associates (French).

The objective of the project was to generate employment by creating new, or developing existing, small enterprises. Particular importance was placed on assisting Jeunes Diplômés (Unemployed university graduates). The project was placed under the supervision of the Ministre de l'Emploi et de la Fonction Publique which was appointed to approve policy, and authorize the budget and transfer of funds. The project, was, however, autonomous in selecting its clients, granting loans, and otherwise managing its operations.

Offices were opened in Bamako, Segou and Sikasso with an expatriate manager at the head of each. The Bamako office was set up to provide services exclusively to Jeunes Diplômés wishing to create new businesses and was staffed by an additional expatriate training specialist. The offices in Segou and Sikasso were set up to provide services to all entrepreneurs, regardless of educational background, both creating new enterprises and developing already existing businesses.

Activities in the field were implemented relatively smoothly despite administrative problems that arose. Initially the European Development Fund negotiated with a local bank (BIAO) to handle the credit aspects of the project. When the bank withdrew at the last minute, the project was obliged to take on the role of a financial institution and this reorientation caused administrative delays. Then there were differences of opinion between the organizations contracted to manage the project which led to the withdrawal of Dhonte and Associates from Mali. Also there were administrative blockages between the European Development Fund and the Government of Mali. The most serious of these occurred following the replacement of the Ministre de l'Emploi in 1988. The new Minister dissatisfied with certain elements of the project, would not authorize a transfer of funds for operating expenses from Brussels through the Ministry to the project. The project had to seek bridging finance from USAID and CIDA.

The first phase from october 1987 to September 1989 was funded to a total of 2.8 million ECU ($ 3.16 million) of which 1.4 million ECU ($ 1.58 million) were loan funds. The project was also assisted during this phase by UNDP/UNIDO who seconded two technical experts to the Segou office.

A second phase from October 1989 to October 1992 is now in an intermediate planning stage, for which a budget of 12 million ECU ($ 13.6 million) has been authorized, of which half are credit funds.

A new project office has been opened in Mopti (November 1989) and the Bamako office is now offering services not only to Jeunes Diplômés but to all entrepreneurs and has started to finance the expansion of existing businesses as well as start-ups. UNDP/UNIDO will increase their team to four, attaching a technical expert to project offices in Mopti and Sikasso.

THE PROJECT'S ENVIRONMENT

Mali is an agricultural country whose economic performance has been negatively affected by drought and by declining world cotton prices. Although estimates of economic growth vary, it is unlikely that real growth has exceeded the rate of population increase.

A freeze on the governments wage bill, the slow growth of employment in public services, the arrears in salaries to its employees, and unpaid bills to government suppliers all contribute to a depressed economy. The government is also trying to increase tax revenues while pursuing a restrictive policy of credit ceilings. Such policies have succeeded in reducing disposable income and consumer spending.

Doing business legally in the modern private sector has become practically impossible owing to controls, the complexity of procedures, taxes, the arbitrary fashion in which government agents apply regulations and fines, and the lack of means of legal protest.

Small businesses in the informal sector are less affected by such constraints, but these provide a barrier to growth and the prospect of operating formally.

Unlike their counterparts in other Sahelian countries, the commercial banks in Mali are not suffering from a liquidity crisis, their problem is finding low risk projects to finance. As most medium to long term investment loans are highly risky, the majority of bank lending is in short term commercial loans to larger well established clients. Thanks to central bank credit ceilings on small business loans (8-10 per cent) the banks cannot afford to consider small business loans.

Despite the banks initial hesitation about the project they have become increasingly involved, but only as service organizations. The level of service some offer is often lacking (bank statements 2 months late, bank charges levied on savings accounts etc).

The project has been positively perceived by the authorities and business community. The willingness of these different groups to participate in and contribute to the project has had much to do with its present success.

HOW THE PROJECT WORKS

In practical terms the project has no identity, rather each of the field offices is an autonomous unit with its own malian name and its own regional personality. This devolution was encouraged from the outset, and each field office manager was allowed to design his own systems and procedures within the broad scope of project objectives. This has meant that each office has developed different procedures within the broad scope of project objectives, but there has been some attempt in recent months to harmonize them.

Presently three of four field offices are managed by expatriates, and the Sikasso office was recently taken over by a Malian manager. Responsibility for the project at national level is split between the manager of Bamako office (Director of administration and finance) and the manager of Segou office (Technical Director).

Each field office has a local staff contingent including an assistant director, twelve professional staff and ten support staff.

Project services are available to any entrepreneur. In this case "entrepreneur" does not just mean "businessman". The project attempts to select clients who demonstrate flair, who wish to do something new or better, who are persistent, or who demonstrate management potential. This approach eliminates the survival-oriented and traditional businesses person and focuses on the creation or development of larger modern small businesses.

As the field offices are situated in towns, their focus is biased towards urban activities. The Segou office does, however, have two part-time branch offices in secondary towns of its region.

Clients discuss their proposals with project staff. If the proposal has business potential then a dossier is prepared. Each field office has a department with two or more professional staff who work together with clients to collect data and verify analysis of the potential market, technical aspects of the proposed activity, professional and personal qualities of the entrepreneur, and financial analysis.

During the time the dossier is being prepared the client has to find a number of individuals (at least 3) who will commit themselves financially to guaranteeing his or her enterprise. These individuals form a group which includes the entrepreneur (legally constituted as a Groupement d'Intervention Economique, GIE) and each individual agrees to pay a certain sum on a monthly basis into a blocked bank account. The cash accumulating in this bank account serves as a guarantee fund and can be drawn on by the project in case of non -repayment of a loan. Members of the GIE receive a return on their investment which is bank interest on deposits of 6.5 per cent per year paid by the bank on the balance of the GIE account, plus an extra payment by the entrepreneur, in addition to his own monthly contribution which is equivalent to 7 to 8 per cent of the loan amount per year.

The GIE's total monthly payment (including the extra payment by the entrepreneur) into the bank account must be at least half of the entrepreneur's monthly loan repayment. An entrepreneur cannot be financed until the equivalent of at least one monthly repayment is deposited in the GIE bank account.

Segou office, for example, has a professional staff person responsible for the supervision of GIE's, opening bank accounts and tracking GIE deposits.

Before a loan proposal can be presented to the credit committee, an entrepreneur must have a viable dossier, support of a GIE, and the personal guarantee from an individual of local standing. In addition the entrepreneur must be able to provide a personal cash investment of at least 10 per cent of the project's total financial need. Also the entrepreneur must be willing to offer any material bought with the loan as collateral according to signature of an internal document.

Maximum loan size is CFA 25 million, except in special circumstances, for a period of up to 5 years. Interest is charged at 7 per cent for agricultural activities and 8 per cent for others. Interest is calculated monthly on the balance due. Grace periods on repayment can be awarded according to the needs of the activity.

All clients financed by the project pay dossier preparation fees equivalent to 5 per cent of any amount up to CFA 5,000,000, 4 per cent of amounts from CFA 5,000,000 to CFA 10,000,000, and 3 per cent on amounts over CFA 10,000,000. These fees cannot exceed 500,000.

Fees are also charged for follow up consultation services, representing 0.5 per cent of estimated turnover calculated for the duration of the loan, and paid at the time the loan is granted.

Each regional office has its own credit committee comprising the Directors of local banks, the Director of the Caisse d'Assurance, a businesswoman, an entrepreneur that has been financed by the project (member of the Association of Promoters) and a representative of the Ministre de l'Emploi et de la Fonction Publique, as well as relevant members of the project staff. The credit committee meets periodically (every 2-3 months).

When a loan is approved the client opens an account at a bank of his or her choice and the loan amount is transferred. Repayments are made from this account by standing order or by direct payment into the project reimbursement account. Clients are required to bring their deposit slip to the regional office on payment at the end of each month. A staff person is responsible for tracking these payments and following up on late payments.

When payments are overdue and a follow up visit does not settle the problem, the equivalent amount may be taken from the clients GIE account.

Where a client has repayment problems owing to technical reasons or a downturn in the market, there are provisions for loan renegotiation including additional financing or rescheduling, depending on the case.

When other alternatives fail, the project issues a convocation to the client's personal guarantor who may put pressure on the client to settle, or may pay in the client's place. In case this option does not work, then the project proceeds with the seizure of the clients assets.

Loan projects are closely followed up. Each regional office has a department with two to four staff members responsible for technical assistance. All clients are visited on a weekly basis. Such visits are to review progress and discuss current problems rather than to provide training. Clients, for example, are asked to keep a cash book if they are literate, but the project does not insist that a business keeps accounts.

In cases where an entrepreneur has serious difficulties, the project will apply increasing doses of technical assistance to the point of bringing a co-manager or an accountant.

In addition to providing finance and technical assistance to small businesses. the project has also been developing structures for savings and local investment. These have been pioneered in Segou and may be tried in other regions during phase two. The Segou office has initiated an investment club called "The Segovien" which at present has eight important local businessmen as members. Each member has subscribed CFA 5,000,000 and the Segovien seeks investments in profitable local businesses on a "Holding company" basis. The Segovien works in close collaboration with the Segou office which proposes potential dossiers and provides technical follow up as necessary.

Also in Segou, the members of GIE's have come together to form a Feder tion with the purpose of subscribing a certain proportion of their savings into a common fund in order to seek profitable business investments. At present the GIE Federation which brings together 22 GIE's (120 people) and has a fund of CFA 760.000 has opted to make short term working capital loans to its own members. The GIE Federation is also seeking to borrow from and lend to local tontines in the region.

The project has assumed an important role (in Segou and Sikasso) as an intermediary between the authorities, the banks, parastatal organizations, other projects and the business community.

The project has financed 213 projects (average loan size CFA 3.43 million) of which 38 are closed, and has created an estimated 889 jobs. Repayment performance is high with less than 10 per cent of payments due in arrears.

The GIE system of guarantee/savings mobilization has been applied differently by each of the different field offices with interesting results. In Bamako, where less preparatory work was undertaken in forming GIE's and less routine daily management of GIE accounts applied, over half of the GIE's started up have been disbanded. In virtually all cases, the entrepreneur has to subsidize the monthly subscription when not all of the partners participate as agreed. The Sikasso office sought to use the GIE system purely as a loan guarantee fund (21 per cent of its loan payments are withdrawals from GIE funds), however, it has few GIE's, each with few members, who have to make large individual monthly subscriptions. Because Sikasso's GIE members have usually fixed their subscriptions beyond their means, entrepreneurs have been forced to subsidize their partners in order to keep the GIE accounts up to date. The system is presently working best in Segou where forming the GIE involves lengthy counselling and then supervision is carried out by a staff person assigned to manage the accounts on a regular basis. The Segou office has encouraged more people per GIE to subscribe less per person, and has been judicious about tapping GIE accounts. In Segou transfer of

RESULTS (OCTOBER 1987 TO NOVEMBER 1989)

(AT 30/10/89) PROJECTS FINANCED	BAMAKO	SEGOU	SIKASSO	TOTAL
N'PROJECTS FINANCED	95	63	55	213
TOTAL INVESTMENT	CFA 323M	CFA 247M	CFA 162M	CFA 732M
PROPORTION INVESTMENT SECTORS :				
AGRO-PASTORAL	24%	56%	26%	35%
INDUSTRY	7%	12%	27%	13%
ARTISAN	2%	2%	9%	4%
TRANSPORT	5%	6%	0%	4%
DISTRIBUTION	22%	10%	4%	14%
TOURISM	0%	3%	0%	1%
OTHER SERVICES	40%	12%	34%	29%
TOTAL	100%	100%	100%	100%
PROJECTS FULLY REPAID/CLOSED	16	9	13	38
REPAYMENTS				
PAYMENTS ON TIME/CLIENT	94%	81%	71%	
WITHDRAWAL GIE FUNDS	1%	4%	21%	
SEIZURE OF ASSETS	0%	0%	0%	
PERSONAL GUARANTEE	0%	0%	0%	
OUTSTANDING RECOVERABLE	5%	15%	5%	
NET LOSS	0%	0%	3%	
GIE's				
N' GIE's	177	171	60	
N' MEMBERS	680	999	290	
CAPITAL ACCRUED	CFA 15M	CFA 16M	CFA 19M	
GIE'S DISBANDED	101	4	24	
[1]GIE's SUB REG.	?	?	0	
[2]GIE'S SUB IRREG.	177(?)	10	60	

[1]. GIE's where members subscribe regularly.

[2]. GIE's where entrepreneurs subscribes for partners.

GIE funds to cover overdue loan repayments normally involves a meeting of GIE members and the signature of a promissory note of repayment by a fixed date from the entrepreneur.

The project is costly, spending one franc to lend one franc. During the first phase (2 years), total revenues from interest payments and fees were sufficient to cover an equivalent 4 months of local operating costs (local salaries, transport, telephones etc).

STRENGTHS AND WEAKNESSES

Unlike most small business credit programs, the goal of the project is the creation of an entrepreneurial class in Mali, and this implies more than making loans and having them paid back. Unfortunately this goal and the social objectives of job creation underwrite the project's heavy emphasis on technical assistance. Project staff estimate however, that 30 to 50 per cent of businesses assisted can stand on their own feet and will continue to grow. The rest are being co-managed or otherwise supported by the project. The sustainability of these businesses and their jobs is not sure.

The heavy cost of providing this technical assistance also raises questions for the privatization of project activities.

But the project has achieved a high repayment rate; it has pioneered a savings/guarantee mechanism that has worked well; it has succeeded in mobilizing strong local interest and willingness for financial participation (The Segovien); it has generated an interest within the banking sector (when the Sikasso office opened there were two banks in the town, because of it there are now five).

Whereas most recent Sahelian small business programs have spent their lives perfecting systems without cultivating local participation and now face major difficulties in finding a home in the local economy, this project has done the reverse. It has developed local participation but must now adapt operationally to provide services that meet local needs at a cost that is not subsidized.

THE FUTURE

The project is now entering its second phase which will continue until October 1992. Almost three times as much funding will be available annually in phase 2 than in phase 1, therefore a considerable increase in activity level is foreseen.

The European Development Fund and the project staff are now reflecting upon a strategy to institutionalize activities. The strategy must resolve issues of how to integrate local partners (The Segovien, commercial banks, the GIE's) into the projects decision making process, provide a vehicle for local investment, create a structure that has a legal status (which the project does not), define the future role of expatriate technical assistance and management, and define the role of the government.

MARADI EMPLOYMENT AND INCOME GENERATION PROJECT, CARE, NIGER

PROJECT HISTORY

CARE/Niger was informally approached by USAID in December 1986 to develop a project in collaboration with the International Labor Office, to provide technical assistance to rural artisans. Maradi Department was chosen as the project zone as its population was large enough to ensure impact at a reasonable cost, and because CARE had other activities there. Finally CARE submitted its own project to the Ministry of Plan, which was approved for funding by the Government of Niger's Counterpart Fund (a government controlled fund subscribed to by USAID from monetized food aid and other local currency funds). Because an earlier ILO project providing technical assistance to blacksmiths was not cost effective, CARE broadened the scope of its proposal to include not only rural artisans but all types of rural income generating activities. CARE's counterpart agency in the execution was the Ministry of Plan as part of support program for private initiatives and employment creation (PAIPCE : Programme d'Appui aux Initiatives Privées et à la Création d'Emplois).

The project began in July 1988 for three years with a total budget of $ 2,415,242.

The objectives of the project were to : develop employment, improve productivity and technical knowledge of artisans, improve the profitability of micro and small scale enterprises, promote the local fabrication of consumer goods, introduce technologies for the transformation of locally produced agricultural products, enhance the quality of life in rural areas, and encourage the growth of a more dynamic local and regional economy. The project was intended to provide at least 350 artisans, producers and other business people with loans and assistance in credit training and business management, and at least 250 enterprises with on-site technical assistance in the use of appropriate technologies.

THE PROJECT ENVIRONMENT

Following the boom driven by soaring uranium prices from 1975 to 1980 the Nigerian economy went into a decline as the market collapsed. In addition the depreciation of the CFA Franc against the dollar, closure of the border with Nigeria and drought, caused a period of slump between 1981 and 1984. In recent years the border has been reopened and Nigeria has floated its currency so the Naira has an official exchange rate not very different from that on the parallel market : Nigerian products have been drawn towards the CFA zone. Maradi is a major gateway for such border trade. Although access to cheap manufactured goods has improved the general standard of living, it has provided a challenge to local artisanal production. Many goods from Nigeria are smuggled as the incentives are high. Gasoline costs CFA 30 per litre in

Nigeria but sells at CFA 250 per litre at the pumps in Maradi (or CFA 250 for four liters from a jerrycan on the black market).

The banks do not lend to small businesses owing to central bank interest ceilings, and risk. Commercial banks in Maradi offer short term trade financing, usually by overdraft against collateral, to businesses with a turnover exceeding CFA 5 million a month. A recent precedent has been set by the Cooperative League of the U.S.A. (CLUSA) which has a successful program (funded by USAID) working with rural cooperatives undertaking small business activities. CLUSA's clients have access to credit from the Banque Internationale d'Afrique de l'Ouest under a guarantee scheme. The program, when started in 1988 has not yet experienced a loan default. Its guarantee fund has grown from $ 100,000 to its present size of $1,000,000. CLUSA has been very active in the Maradi region and BIAO's positive experience with this scheme has encouraged it to operate a credit window for artisans under CARE's project. All of CARE's equipment loans over CFA 250,000 are provided through the BIAO.

CARE is also working in collaboration with the Caisse Nationale d'Epargne (CNE). The CNE is a government savings bank that operates through the Post Office. At present CARE operates its loan accounts smaller than CFA 250,000 through the CNE.

An ILO program in the neighboring region of Zinder is providing subsidized loans to blacksmiths and a UNICEF program in Maradi region is giving away millet mills to a value of CFA 20 million. Prior to the project, CARE's own activities (forestry and food aid) in the Maradi region were all grant based. In the wake of such largesse it is often hard for the population to accept that CARE's Maradi Employment and Income Generation project makes loans for which it charges interest and expects to be repaid.

Although the project is financed by a Government of Niger agency and reports to the PAIPCE (Ministry of Plan) the project managers have complete autonomy in selection of clients, administration of funds and all other operations.

HOW THE PROJECT WORKS

The project has two components : a technology component, and a credit (with management training) component. The credit component is managed by an expatriate (The Project Director), with four professional staff at head office, and 9 field agents. The technology component is staffed by an expatriate technology officer, a local counterpart, and an assistant (expatriate) stationed in another town of the project region.

The project provides services to artisans, rural microenterprises and individual income generating activities. The project does not provide services to traders in Maradi town or to businesses such as bars and cigarette vending.

A business person requiring a loan applies at the nearest field office. The field agent observes how the business is managed during a certain period until he/she is satisfied that the client is motivated. The agent then prepares a loan dossier/business plan with the client, which includes an analysis of the market, technical aspects, character assessment of the client and a financial statement.

Each dossier is checked at head office by a supervisor and verified at the clients place of business. Each month a credit committee of Senior project staff examine outstanding loan dossiers.

Once a loan has been approved by the credit committee, resources are disbursed by one of two mechanisms depending on the size of the amount, these are:

- Through the BIAO

All equipment loans over CFA 250,000 and up to CFA 3 million are financed by the BIAO. Credit is disbursed and reimbursed through an account at the bank. Loan clients pay normal bank rates including documentation fees of CFA 12,000 and an interest rate of about 15.5 per cent. Clients are not required to provide loan collateral. Bad debts are covered for 112 per cent of their value through a guarantee fund put up by CARE. Loan accounts are managed by the bank and CARE is provided with statements on a monthly basis.

- Through the Project/Caisse Nationale d'Epargne

When a dossier for less than CFA 250,000 is approved, the client is financed directly by the project. Reimbursements are made using a pass-book into a CNE accounts at Post Offices, which are located in smaller towns . When a client has made a repayment he brings his pass book to the field agent who fills out a control form informing head office. Interest rate on project loans is 12 per cent (or 1 per cent per month on the balance of the account). Borrowers do not have to provide loan collateral but are required to supply a witness who acknowledges they have received the loan. If a client does not pay for 2 months, without a valid reason he/she is charged a penalty of 2 per cent of the balance due. Rescheduling is possible in case of force majeure. The project has not yet had to renegotiate any of its loans.

For loans through both the BIAO and the CNE, CARE requires that clients make a personal contribution towards the loan activity of over 20 per cent of its value either in cash or kind. Field agents visit clients once a week to check on progress and to give counselling as necessary.

If a loan dossier has a technical requirement then the technology component provides technical assistance including feasibility studies. The technology component is also testing appropriate manufacturing techniques and trying to encourage local artisans to adopt them.

RESULTS (JULY 1988 TO NOVEMBER 1989)

The project has financed 151 working capital loans through the CNE to a total value of CFA 9.96 million. 21 of these loans have been fully repaid.

32 clients have been financed through the BIAO to a total value of CFA 26.5 million and all of these accounts are still active.

Of the value of all loans made to date, 70% was made to artisans and 30% to commercial activities.

Normal duration of CNE loans is 5 to 10 months, and for BIAO loans from 12 to 20 months.

Total amount of principal repaid to date is CFA 3.8 million. 45 clients were paying late (NOV 1989). The total amount of payments owing is CFA 283,000 which is 30 days late and CFA 272,000 which is 60 days late. The project has not yet had to renegotiate any loans

STRENGTHS AND WEAKNESSES

The project has now been operational for 15 months and has succeeded in developing a small but healthy portfolio of loans predominantly to artisans (about 16 per cent of the CNE loans are to merchants). CARE has done well to involve the BIAO through a credit guarantee scheme and to use the CNE post office network. The project has effectively set up two different credit mechanisms serving two different types of credit need. There is a possibility that the CNE may take over the small loans credit window (See on).

The project's technology and technical assistance services have had less success. The technology component is trying to convince artisans to make things in a region where it is infinitely more sensible to import them. The management training and technical assistance program has not yet got off the ground.

The cost of the project services per client is extremely high.

The major weakness of the project at present is lack of direction. End of project date in August 1991 makes this all the more critical. In its original conception the project was entirely welfare oriented, for example the project paper suggests experimental demonstrations and tests of new technologies such as "metal canoes to replace dug outs which result in numerous deaths each year". The project continues to proceed with this orientation. CARE's project managers are, however, beginning to look at the project with a more commercial eye and at the prospect of at least turning part of the program into a leaner and meaner type of operation that will be self sustainable. But this may not be easy for an institution such as CARE with its own welfare agenda. The risk remains that the project funds will be used up and nothing will be left, not even a metal canoe on the Niger.

THE FUTURE

CARE will be making an effort in the 1980's to develop the project's credit and management training capacity and to develop its on-site technical assistance program in improved technologies. Following the visit of an appropriate technology consultant, 12 new technologies and products have been identified which will be demonstrated and tested in the region. The project will also seek to identify ten community groups that will undertake self-help projects with the assistance of artisans trained by CARE.

As a pilot initiative the project will fund the CNE to open a credit window in one of the project zones and will pay the cost of placing a CNE agent in the field to administrate loans. These loans will be made without dossier analysis and will be for consumption as well as productive investments. Clients will be required to provide personal guarantors. The proposed interest rate on these new loans (if government approval is given) will be 36 per cent. CARE is now deciding whether to raise the interest rate on the working capital loans (currently 12 per cent) in its other field offices accordingly. The objective of this pilot project is to create a sustainable credit activity using a local institution. The drawback in this case is that the CNE is presently a savings institution with no mandate to give loans. At present the CNE is prohibited by law from using its own funds for business or other investments. Furthermore the CNE has only agreed to participate in the experiment at CARE's expense. The test, however, is important if only for the precedent it sets.

The future of the BIAO equipment credit scheme for artisans is probably conditional on the continued provision of guarantee funds covering 112 % of loans loss.

ASSOCIATION POUR LA PRODUCTIVITE (APP) BURKINA FASO

PROJECT HISTORY

APP is a twelve year old program that has experienced several mutations :

Phase 1 (1977-1981)

APP began in 1977 at the initiative of the American PVO Partnership for Productivity. The project was a pilot initiative with the purpose "To determine by experiment the best program design to develop rural enterprises, and to provide a means of increasing farmer self determination and commercial independence".

Two expatriate advisors were sent to the eastern region of Burkina Faso, one to the regional center of Fada, the other to Diapaga. Both were "parachuted" into places relatively cut-off from the out-side with limited resources to "experiment". Each gravitated to the type of intervention that seemed appropriate to him, one producing a small enterprise revolving loan fund, the other an agricultural credit and technical assistance program. The project was not supposed to create a credit system (actually it made 400 loans) or to hire local staff, (which of course it had to).

The methodology that won out became known as the PFP approach. This approach involved leading candidates for assistance through a number of steps before and after a loan was granted and involved large doses of business advice and training as a condition of receiving loans. PFP claimed that this approach if correctly followed almost guaranteed success. But it was an expensive approach that needed highly trained and experienced advisors.

Phase 2 (1981-1987)

Following a mixed but generally favorable evaluation of phase 1, USAID decided to fund a second phase with a project budget of $ 2,700,000. The major objective of the second phase was institutionalization of the small business program. PFP at this stage rejected high volume lending as a means of covering costs because it believed that Burkinabe peasants could never pay the actual cost of credit and management training. It reasoned instead that the best way to defray program costs was to make money in the local economy.

Therefore only $ 240,000 was put into the loan fund. APP put its energy into developing a group of subsidiary enterprises : a garage, an agricultural inputs store, a bookstore, a tractor ploughing program, a heavy equipment rental service and later a seed multiplication program. These enterprises were supposed to support the project out of profits. Although the activities were useful additions to the local economy they placed a management burden on the staff and they all lost money constantly. Perhaps if the project had applied its own business management principles and carried out a feasibility study with a market survey before embarking on this experiment the situation would have been otherwise. All the enterprises were overstaffed, overequipped and lacked business.

During phase I, the project had between 5 and 10 local employees. During the second phase it had 54 employees. This was partly due to the enterprises, partly because the expatriate staff wanted to hire better qualified personnel while avoiding the psychological and political pain of laying off the old ones, and partly because the program was over funded.

Whereas in phase 1 the expatriates knew all the borrowers, in phase 2 the expatriates moved away from the clients through several layers of management. Because of the great difficulty of local travel and the absorption of expatriate managers in running the enterprises, management of the loan program, a portfolio of 400 loans worth about a quarter million dollars was left to three regional managers. Unfortunately none had a high school degree or more than informal on-the-job training in management and administration.

In addition to the financial cost and lost management time, the enterprises generated and administrative nightmare. For example the project had 13 separate bank accounts and a complicated system of advances and transfers among them. APP needed certain systems which were developed late, incompletely or never. Among these were: financial and loan fund reporting systems, financial control systems, program planning and reporting systems, and personnel systems.

In 1985, APP built a new office-workshop complex. After sending a staff person to a training course at the Association pour le Développement d'une Architecture Urbaine en Afrique, (A.D.A.U.A) in Mauritania, the project planned and constructed a two story office and a residence for the General Manager from stabilized banco. The office was the tallest building in Fada, with dome-shaped rooms.

<u>Phase 3</u> (1987-1988)

In december 1986, PFP in Washington went out of business unexpectedly, and APP became a project without an institutional home. It was eventually taken over by the American PVO Council for International Development (CID), but under a strict set of conditions. CID agreed to act in intermediary role, to reduce and simplify the program to a sustainable level while turning over control to a local Board of Directors as soon as possible . The hand-over was managed by an expatriate retained by CID.

The enterprises were discontinued and the staff was reduced from 54 to 33. Active steps were taken to involve APP staff in rethinking the program. If administratively the transition to local control (also meaning less money) meant difficult decisions for APP programmatically, it was also an opportunity for the staff members to reflect on its own experience and decide what they wanted to do next.

In may 1988, following a General Assembly, a board of Directors comprising five prominent Burkinabés and CID was elected, a Burkinabé General Manager was named, and steps were initiated to register APP as a local non-governmental organization.

Phase 4 (1988 to date)

Following "independence" APP's budgetary situation dictated further changes. The staff was reduced from 33 to 23 people, field agents' motorcycles were replaced by mopeds, salary levels of all staff were revised downwards to levels comparable with other local NGO's.

Administrative systems were formalized and written down. A personnel manual (which had eluded five successive expatriate managers) was issued.

Credit management was completely overhauled ; CFA 63.7 million (70 per cent of the original loan fund) that had been kept on the books since the beginning of the project as active loans (even though no repayment was being made) was written off as bad debt. A bad debts recovery service, with a full time staff person was also created. APP also started involving local banks, checking for credit risks before financing clients.

Major changes were made in the orientation of the program. Before, APP's clients were individuals with legal small businesses requiring relatively large (average $ 600) loans. The "independent" APP decided it was more effective to work with groups and to provide many more smaller loans to poorer people for agricultural and income generating activities. This meant a complete change in methodology and procedures. Field agents, for example, were required to move from regional centers to live in villages in order to be in direct contact with clients.

APP also started an environmental program to prevent erosion and soil degradation from over cultivation. The program started in 1988 with grant funding from Band Aid and from USA for Africa.

THE PROJECT ENVIRONMENT

APP operates in three provinces of the Eastern region of the country. It is a sparsely populated area : the December 1985 census found 705,503 people scattered in 683 villages over 68,000 square kilometers. Principal regional towns are Fada N'Gourma (pop 20,414), Diapaga (pop 12,054) and Bogandé (pop 6,379). The area is traditional and isolated.

Climate is demanding. Rainfall 800-600 mm is poorly distributed in time and volume during the rainy season. At the height of the dry season the temperature can reach 50°C and water, food and forage become scarce. Agriculture which is primarily subsistence production of millet and sorghum has resisted efforts at modernization. There is also some cash crop production including sesame, soja, cotton and vegetables, but such farming is risky. Over all, the area produces about 80 per cent of its caloric needs.

There are three banks in the region located in Fada and these provide services to APP. Banks require businesses clients to be legally registered (immatriculated) before they can open an account, and to provide solid guarantees before being considered for loans. APP's clients cannot fulfil these requirements (although 2 have "graduated" during the life of the project).

APP is an independent non-governmental organization which is supervised at the national level by the Ministère du Plan.

HOW THE PROJECT WORKS

APP is a Burkinabé non-governmental organization governed by a board of directors (5 Burkinabés and CID) which is appointed by a General Assembly consisting of staff members, representatives of government agencies, members of the local administration and local personalities. The board of directors approves policy and appoints staff. APP's operations are managed by a General Manager and his staff, a total of 23 persons. Head Office is minimally staffed by the General manager, 3 Heads of Department (Training, Credit and Administration) and a loan Recovery Agent. At a secondary level there are three regional offices each staffed by one regional representative. At a tertiary level there are 10 village based field offices each manned by one field agent. In terms of overhead costs APP is run as frugally as possible, for example the organization runs a single vehicle (a pick-up) and journeys are carefully planned to maximize use of fuel.

APP's clients are village groups. loans and others services are provided to individuals but always through these groups. Village groups can also divide themselves into sub-groups (women, merchants, blacksmiths etc) to use the program's services. Loan funds are available to fund any type of income generating activity, but not for consumption.

Previously, APP dealt exclusively with individuals on demand, which means the clients came to APP field offices with requests for loans and services. Now APP field agents go out actively seeking clients. This involves informing villagers about APP's services and helping to establish groups and elect leaders and then providing ideas for, and helping to plan, income generating activities.

Field agents work with group members to analyze small business projects and such business plans are formalized as loan dossiers, which includes simple financial statements.

Loans are always granted through the group mechanism, and the group must be from a village in APP's region . Income generating activities funded must be the responsibility of specific individuals (whether for individual or group activities). Beneficiaries must make a cash contribution of at least 30 per cent of the total funding requirement of the loan project.

Loan dossier are presented to a monthly credit committee and comprises the field agents of a region and the regional representative (no member of Head Office being present). Written minutes detailing loan committee decisions are sent to Head Office.

Once a loan is approved, conditions and terms are discussed with the beneficiary group and a contract is established by the regional representative. This contract details the repayments schedule and fees. Once fees are paid, the contract is signed and the loan is disbursed.

Any village group wishing to open a loan dossier must pay a CFA 1.000 fee. Interest is fixed at 15.5 per cent for commercial activities and at 11 per cent for agricultural activities which is calculated on the declining balance as the loan is repaid each month. In addition fees for training and follow-up are charged at the rate of 2 per cent of the loan amount. In case of late repayment of loans, two per cent of the overdue amount is levied as a penalty.

No collateral is formally required. APP's main guarantee of repayment from an individual or group is social pressure. Any group demonstrating a poor repayment record is automatically disqualified for future loans.

Repayments are made on a monthly basis at the field office. The field officer brings payments and receipts to the regional office and a monthly report on repayments is prepared for Head Office. This is brought by the regional representative to a meeting at Head Office on the 6th of each month. Receipts and payments are tracked by Head of the Credit Department. Normally reimbursement funds are kept at the regional office and used to finance new loans. Fees and interest payments are subtracted and brought to head office.

Field officers and Regional Representatives are responsible for collecting late payments and penalties due. If, however, a client is more than 6 months overdue, the case is passed over to the head office loan recovery agent. If the client does not respond to a warning letter from Head Office the dossier is passed over to the Mandateur de la Justice.

The Mandateur de la Justice of Burkina Faso does not have an equivalent in other Sahelian countries. He is a combination of gendarme, bailiff, and judge, whose role is to settle late payment of debts. Once a case is sent to the Mandateur de la Justice and the documentation proves the client at fault then the client's personal property may be immediately seized and sold within 7 days unless the debt and mandateur's fees are settled within that time.

When a loan falls overdue because of fire, death or bankruptcy, APP takes a soft line. For example an agricultural loan that is not repaid because of crop failure is usually rescheduled without interest until the next season.

All loan projects are visited on a regular basis about every two weeks. Clients are required to keep a cash journal that is checked by the field agent. Business management advice is also provided. Agricultural projects may also be followed up by government agricultural extension workers.

As well as providing services to small businesses, APP also has an environmental program. With funding from Band-Aid and from USA for Africa, APP has been assisting the construction of Diguettes Filtrantes (contour bunds) on a grant basis. These are lines of rocks placed along contours in open fields and other areas denuded of vegetation. These rocks prevent rainwater from carrying away topsoil and other organic matter, so preserve the soil. APP provides the tools and conducts the necessary simple land surveys, village groups provide the rocks and the labor. APP consider this service to be entirely complementary to its income generating activities.

RESULTS

During 1982 to 1988, APP's program under USAID funding was oriented towards individuals enterprises. During this period, the loan tracking system was incomplete and follow up and recovery of late payments was weak and poorly enforced. In addition services were provided to clients by the projects enterprises eg for mechanized plowing and fencing fields, and charged to the client on a credit basis, when in fact such services were normally beyond the farmers means.

In May 1988, APP changed its credit policy and completely overhauled its credit management system. The total credit fund by this time was reduced from CFA 90 million to CFA 26.3 million. Non performing loans from the old system to a value of CFA 63.7 million were written off from the new system. Of the outstanding bad debts CFA 16 million were classed as "beyond hope" and the rest continue to be followed up by the recovery service.

APP began re-lending through its group mechanism in January 1989, with the following results in the brief period to date:

	Sector		Sex		
	Agriculture	Commerce	Man	Woman	Total
No. Loans	47	135	126	56	182
CFA Value	4.455.360	23.168.730	23.368.090	4.256.000	27.624.070

(ii) REPAYMENT SITUATION: 30 January 1989 et 30 October 1989

Principal Amount Loaned (CFA)	Total (A) Payments Due At 30.10.89 CFA	Actual Payments (B) Made at 30.10.89 CFA	% Repayment (B/A)
27.624.090	20.913.272	16.818.115	80

* Repayment performance was effected by late commercialization of crops which put most agriculture loans into arrears.

(iii) SUSTAINABILITY OF ACTIVITIES - (1 January, 1989 to 30 October, 1989)

Revenues (a) Costs, Fees + Covered Interest	Field Office + Regional Operating Costs	All Salaries (Field + Head Offices)	Salaries + F.O. Operating Cost (b)	% (a)+(b)
4,072,903	2,780,089*	11,245,480	14,025,569	29%**

* This figure does not include Head Office operating costs.

** Shortfall of costs plus Head Office operating costs are presumably covered out of grant funding for the environmental program plus other revenue sources (see on).

STRENGTHS AND WEAKNESSES

APP is a now a mature organization with a rational structure, good administrative systems (better than many projects) and written procedures. The organization is now independent and locally owned. APP staff display a high degree of competence and awareness of issues that they face both in delivering services and surviving organizationally.

APP has shown remarkable resilience, cutting back on expenses and managing on a shoestring. Its staff today know the value of money much better than their predecessors. But despite the fact that APP makes its money work, it doesn't have much of it. So, APP strives for sustainability but its credit fund is far too small to generate enough revenue to cover costs.

APP has tried to make some extra income by selling off the last of its USAID project assets. The former garage is rented out at CFA 100,000 per month. The expatriate directors villa, that the project built, and a caterpillar bulldozer are up for sale. Some of the assets, however have turned into liabilities. The "appropriate technology" office building is less than half occupied and is crumbling to pieces. The office building costs CFA 500.000 each year in minimum maintenance and there is an outstanding estimate for CFA 3 million for larger repairs. APP would like to sell this building too, but is unlikely to find a client.

Although APP has made tremendous advances since independence in becoming an effective credit institution, the organization still has welfare objectives and this poses two dangers. The first is that although APP needs to manage its resources for the highest financial return in order to survive, it manages its resources for the highest social return instead. This means, for example, that clients that suffer accidents receive a sympathetic ear from APP instead of being pursued for bad debts, and this puts the future of the loan fund and the organization itself in jeopardy. The second is that, traditionally, NGO's in Burkina Faso are conduits for US and European grants. Because of its delicate financial situation, APP is now starting to try to tap these. Presently APP is proposing to participate in a grain distribution program to families in necessity, and a women's program providing millet mills on interest free credit with 80 per cent reimbursement requirement. Pursuing "old-style" PVO objectives will divert management time away from credit fund management and will perpetuate "social" management of the credit fund which can only result in its decapitalization.

THE FUTURE

APP is studying the possibility of opening a savings program, although until it becomes more bank-like the possibility of linking this to its credit program seems inviable (one can not be "kind" with peoples savings). APP's major challenge now is to find more funding. USAID, the most likely donor for this type of activity has sharply reduced its budget for Burkina Faso in recent years. APP is far from Ouagadougou and its senior staff have relatively little experience in the donor marketplace. Good programs, however, tend to find funding.

That so little of USAID's $ 2.7 million investment remains is a tremendous pity, but how it got spent provides an important lesson to anyone now designing a self-sustaining credit institution.

THE PRIVATE ENTERPRISE CREDIT AGENCY
KAOLACK, SENEGAL

PROJECT HISTORY

During the early 1980's USAID Senegal conceived two projects. One was to assist blacksmiths and rural artisans, the other was a support program for local NGO's. For political expediency (Washington seeking to fund fewer or larger projects) the two were put together and became the Community and Enterprise Development Project for the Sine Saloum Region of Senegal (Kaolack and Fatick).

A feasibility study led to the preparation of a project document in 1983. USAID had difficulty obtaining the Senegalese government's approval, however, because the project document proposed radical changes to the usual donor to government package. Instead of operating through a government agency, the project was to operate independently. As this meant fewer resources (such as cars and jobs) to government, the negotiation process went on for more than a year. The project started eventually in September 1985.

The community and Enterprise Development project had a budget of $ 9 million for 4 years. It was managed by New Transcentury Foundation, a US PVO and Management Systems International, a private US corporation subcontracted to manage the enterprise development sector. The project was supervised by a National Committee with representatives of six government ministries. This committee was responsible for approving project policy. Project operations, however, were entirely managed by the project's management unit.

The project had two components : The Small Enterprise Component's purpose was to provide loans and technical assistance to promote individual private businesses. The PVO Component's purpose was to assist village groups to develop off-season agriculture (not peanut production) by providing grants for infrastructure and loans for agricultural inputs. Such village projects were technically supervised by local PVO's and the PVO components role was to provide these PVO's with grants and technical assistance to increase their institutional capacity. The small enterprise component and the PVO component operated in isolation of each other.

The Small Enterprise Component's objective was to support the commercialization of agricultural production, under the governments. New Agricultural Policy, as the state withdrew and the private sector took over the buying and selling of agricultural commodities, transportation, transformation, and other activities that had previously been controlled by state monopoly. The component's other objective was to develop and manage a high performing loan portfolio that would be taken over by a commercial bank at the end of project.

The project document did not define how the small business component would function and was vague about the needs of business people in the project region, so a research and planning phase was necessary once the project had started. This involved a survey of more than 300 small enterprises throughout the region.

The survey showed that relatively few enterprises wanted to get into the agricultural support business at the time, owing to price controls and fear of a return to government intervention.

A strategy was developed based on the findings of the study, oriented towards creating a high performance small business loan program that would at least cover its own cost, on the grounds that no bank would take over a losing venture. Elements of the strategy were that the target group was defined as individual small businesses as opposed to income generating activities ; that loan projects would be funded on the basis of their profitability ; that the role of technical assistance and training would be minimized in order to reduce costs; that the interest rate should be the highest legally allowed (24 per cent); and that the program would lend to any category of business because there were too few "agriculturally related" clients to work with.

This strategy was hotly disputed by certain members of the project team because of its reduced emphasis on agriculture, it did not address marginal activities, it was not orientated towards women, it placed no emphasis on village businesses and because of its de-emphasis of training and technical assistance. The National Committee of government representatives also had difficulty accepting the high interest rate. The strategy took three months to approve.

Problems arose with the project management structure. According to the project design there were four functional units: a small business unit, a PVO unit, a credit unit, a training unit and an administration and accounts unit. In practice this worked badly, therefore the management structure was altered and two programs were created : the small Business Program and the PVO Program, supported by an Administrative and Accounts Unit.

The Small Business Program had a computer based loan tracking system specially designed for it by a consultant from a major international accounting firm (at considerable cost). When the program started to make loans, however, this system proved to be ill-adapted to the type of lending being carried out and could not produce the kind of reports essential to managing the loan accounts.

In spite of these growing pains, the small business program developed a loan portfolio with a high repayment rate. Because of this success the loan fund was increased during 1986 to 1989 from $450,000 to $900,000. But success was clouded in 1988 when small business program field staff were discovered to be misappropriating project funds, and an audit had to be held. The loss totalled about CFA 4 million and three field agents (out of seven) were dismissed.

The audit showed up severe weaknesses in the financial management system, partly due to a dysfunctional division of responsibilities between the small business program and the administration and accounts unit, and partly due to a lack of written procedures. The system was weak because it had developed on an ad-hoc basis without the input of persons with experience in setting up similar credit programs.

The small business program stopped making loans for three months while the financial management system was completely redesigned.

During 1988, in view of the impending end-of-project, the small business program began to look into issues of institutionalizatic.ı. Although the project document stated that the small business loan portfolio could b- taken over by a local bank, no local bank would agree. The small business program therefore began to study its other options. As no possible parent organization was found to exist, the only remaining choices were closure or continuation alone. To continue alone the small business program needed to become profitable, so program management began to study under what conditions this would be possible.

On the basis of it's potential for institutionalization, USAID decided to fund a second phase of the small business program until 1992, when it was estimated that under modest growth assumptions the loan program could break-even.

The small business program became "independent" of the Community and Enterprise Development Project in November 1989 and moved into its own (more modest) offices. It was renamed the Private Enterprise Credit Agency (PECA). PECA's zone of intervention was enlarged to include the neighboring regions of Thies and Diourbel.

THE PROJECT ENVIRONMENT

From 1960 to 1980 the Government was the dominant force in the Senegalese economy, particularly through its control of the agricultural sector, of which the peanut industry was the most important part. Public enterprises failed dramatically, bringing Senegal into the 1980,'s with no option but to cut back and privatize. At the same time as the Government began to lay off workers and close down parastatal companies, the country experienced continued drought coupled with a fall in the world market price of peanuts. As agriculture employed 70 per cent of the active population and 70 per cent of the cultivated acreage was under peanuts, this was a severe setback. In the latter 1980's, although rain returned, the market for peanuts remained flat.

In 1984, the Government adopted an Economic Reform Plan to reduce balance of payments deficits by limiting public sector expenditures and removing constraints on private sector development. Two policies that formed this adjustment program were the New Agricultural Policy and the New Industrial Policy.

For most of the small business activities the changing policy environment has not made much difference. These are the traditional businesses that provide over 90 per cent of the population with retail goods, transport services and an important proportion of food and manufactured goods.

Such businesses are very poorly served by the banks. This is partly because interest rate spread fixed by the central bank on small business loans (3 per cent) is insufficient to cover administrative fees for such lending let alone provision for bad debts which banks assess at 18 to 45 per cent. The main reason for the lack of bank service is liquidity. Only four banks (out of twelve) are fully functional. Available funds are used for commercial credit to big businesses.

Only one bank remains fully operational in the Kaolack region (two have closed since 1985) and services even for a large client like a USAID credit project are abysmal. Bank statements arrive at least 2 months late and normal bank transactions take hours to perform.

Because of peanut farming the national economy even at the rural level is monetized. Following harvest the money supply increases and trade booms for about four months November through February. However this is highly dependent on rainfall, and to a lesser extent on farm prices which the Government has been subsidizing (though revising steadily downwards year by year). Small business lending in Senegal's peanut basin is sensitive to these external factors.

HOW THE PROGRAM WORKS

PECA has a small head office managed by an expatriate with five professional local staff: a Legal Officer, an accountant, a cashier, and two regional field supervisors. PECA has a field office in each of the main market towns of the Kaolack and Fatick regions (6 offices) staffed by one field officer.

PECA lends to any kind of small business activity from domestic operations such as cloth dyeing to heavily capitalised small businesses in trucking. PECA finances all sectors including commerce and agriculture and has only limited this policy on the basis of risk, for example artisanal fishing is no longer financed, (but traders who buy and sell fish still get loans).

PECA requires that its clients are already in business, therefore have adequate experience and some capital already invested in the activity. This requirement of experience and capital means that PECA finances very few business start-ups. Literacy and book-keeping are not required of clients.

A business person needing a loan to develop his activities goes to the local PECA field office to discuss his idea. If the field officer judges the idea to be viable he starts to prepare a loan dossier. Preparing a loan dossier is a joint exercise between client and field officer and integrates a simple business plan with financial statements and risk analysis of the client and his activities.

Once the dossier is in order, it is checked by a head office supervisor at the clients place of business, who makes an independent evaluation of the client and his business. The proposal is then submitted to the loan committee for approval. The timeframe for the approval of an average loan is one month.

The loan committee meets monthly and is attended by all professional staff members. Loan committee decisions are taken on the basis of the viability of the proposed activity and its risk. Before a loan is approved, the terms of the loan and loan collateral offered must be within regulation.

Size of loan and the repayment schedule is calculated in accordance with the cash flow of the project to be funded.

For first-time loans a maximum loan amount of up to CFA Franc 3,000,000 ($ 10,000) with a maximum duration of up to 12 months is fixed. Second loan amounts and duration are judged according to the needs of the loan project. The interest rate is 24 per cent and is variable according to Central Bank Regulation. Interest is calculated on the declining balance of the loan as it is payed back. No other fees are charged.

To ensure that a client will take his financial obligations seriously, material security is taken such as:

- Personal Guarantee (Aval)
- Property Deed (Titre foncier)
- Pledge of Contract (Nantissement sur le marché)
- Equipment Collateral (Nantissement d'équipement)
- Pledge of Working Capital (Nantissement du fonds de commerce)

These guarantees are only accepted if they are saleable. The value of items offered as security should usually be superior to the value of the loan. All security is legally registered at a small fee. In addition the clients sign promissory notes (Effets) for the full amount of the loan, which facilitate legal proceedings in the event of non-payment. Previously, loan collateral was not registered in order to help clients save money on registration fees. However, these savings were minor and non-registration posed legal difficulties when clients were pursued for late payment.

Because there is only one functioning bank in the region providing a poor service, and for cost saving and convenience of the client, PECA does not open accounts for its clients at the local bank but manages all its own accounts and handles its own treasury operations.

Loan disbursements are made in cash at the head office once all formalities are in order. Clients repay their loans on a monthly basis to the head office cashier, or to their local office. Payments are tracked closely and any client not paying within 10 days of schedule receives a visit of the legal officer. When loans are non-performing for more than 60 days PECA initiates steps to seize collateral. This involves a warning letter prior to goods being seized by a bailiff. Once collateral has been impounded the situation is negotiated between PECA and the client.

Field officers are motivated by a bonus/penalty system. This is paid in addition to salary and is calculated quarterly on all loans fully paid back on schedule or closed in default. The bonus is calculated at 3 percent (per year) of the loan amount borrowed and fully paid back. Penalties are levied on loans declared in default, calculated at 10 percent of the outstanding loan balance due. The bonus and penalty situation is kept in a separate account and never affects the field officer's basic salary.

RESULTS

For the period since PECA began making loans in September 1986 to 30th October 1989, the results are as follows:

Number of loans made		483
Total Amount Invested (all loans)	CFA	626,000,000
Average Loan Size	CFA	1,300,000
Number of Active Clients		233
Amount of Current Investment	CFA	324,000,000
Total Amount of Loan Fund		CFA 484,000,000

DISTRIBUTION OF LOANS BY ECONOMIC SECTOR (DECEMBER 1988*)

SECTOR	N# CLIENTS	AMOUNT	% TOTAL AMOUNT
AGRIC/FISHING	108	111	25
COMMERCE	138	185	42
MANUFACTURING	35	39	9
SERVICES	68	104	24

In October 1989, PECA began a campaign to clean up its loan payment in arrears situation. The following situation was established:

TOTAL OF PAYMENTS DUE MORE THAN 2 MONTHS BEHIND SCHEDULE	TOTAL AMOUNT OF BAD DEBTS BEING PURSUED IN COURT	TOTAL
CFA 19,700,000	CFA 42,700,000	CFA 62,400,000

This exercise established the provision for bad debts since the beginning of the program at 10 % (hence a 90 % repayment rate). The final figure will be an improvement. CFA 8 million of the total payments more than 2 months behind schedule were recovered during October-November 1989. Efforts are also being made to obtain results through the courts.

PECA had a 17 per cent intermediation cost calculated as follows :

$$\frac{\text{Amount of money spent (operating costs*)}}{\text{Amount of money lent out}} = \frac{\text{CFA 82 million}}{\text{CFA 484 million}} = 17\%$$

* This figure does not include :

- Expatriate salary and costs
- Provision for bad debts

An impact evaluation in 1988 of 110 businesses that had taken and fully repaid loans, indicated that the average asset value of each enterprise increased by 47 per cent after the loan was paid back and that 79 per cent of clients reinvested their profits wholly or partially. Forty two of the enterprises created jobs of which 41 were permanent and 135 temporary.

STRENGTHS AND WEAKNESSES

As part of the Community and Enterprise Development Project, the small business program's strength was its approach : providing financial services to clients at the field level without complex entry mechanisms (such as training) ; financing activities judged on their viability not on their "appropriateness", looking closely at the family context of loan clients, providing quick service, supplying credit for short term operations, and managing resources for the highest financial return (i.e. seeking self sustainability). The program's weakness was its management structure and its financial management systems and accounting system.

Today PECA is managerially independent. The program now has its own accounting and financial reporting system, its management procedures are revised and written, and its management structure has been rationalized.

PECA's goal now is to attain profitability by cutting costs, improving loan recovery rate and increasing loan volume.

Costs have been reduced by moving into smaller premises, reducing staff, cutting down on "project" expenses such as trips to Dakar and per diem.

PECA has adopted a hard line on late payment of loans. Instead of renegotiating arrears situations, as before, PECA functions on the principle that as soon as clients start to accumulate late payments, strong action must be taken otherwise the amounts overdue soon become too large for the client to be able to settle easily.

PECA is starting to conduct market studies to see in what sectors loans can be increased. It is also delegating decision making for loan proposals under CFA 500.000 to field officers with a proven track record to lighten the management burden at head office.

PECA's weakness as it aims for profitability and institutionalization is that it has not yet involved the local business community as investors or partners other than as loan clients. This means that finding local financial investment from the business community will be difficult. It also means that handing over from expatriate to local management will raise issues of accountability. It also exposes the program to being taken over by the government. Although the program has begun to perfect an efficient credit mechanism, it has not yet found a home in the local system.

A further weakness is the loan program's exposure to drought. As there have been good rains since the program began, it is not yet known to what degree drought will cause loan loss, or what this means for the sustainability of such a program.

THE FUTURE

PECA is currently recruiting field officers to open offices in the region Thies as part of its expansion, and the loan fund has been increased.

USAID will also be funding an extension of project activities to Dakar, which will either involve moving the PECA head office from Kaolack or starting a separate program. The Dakar program is scheduled to start in mid 1990. Extending to Dakar will allow PECA to spread its risk making the future of the organization less susceptible to agricultural factors.

Studies have been carried out to identify an appropriate institutional form, although no decision has yet been made as to how PECA will be locally incorporated.

SAHEL REGIONAL FINANCIAL MANAGEMENT PROJECT
DAKAR

PROJECT HISTORY

The Sahel Regional Financial Management Project (SRFMP) is funded by USAID under contract to Experience Inc a private U.S. company. SRFMP has offices in Mauritania, Senegal, Mali, Gambia, Burkina Faso, Niger and Chad. Each office has an independent team of management consultants. The goals of SRFMP are to improve financial management in the private and public sectors and to promote "institutionalization" of financial management systems and the capacity for training others in the use of such systems. The managers of each country office are free to devise their own programs, within the framework of these broad objectives, according to needs or opportunities in the local context.

During SRFMP Dakar's first phase from July 1986, a request was received from the Maitrisard Bakers Association to help them to develop a simple accounting and financial management system for bakeries. The "Maitrisards" are unemployed university post-graduates that have been financed under a Government employment generation program to start small businesses. SRFMP staff worked closely with the bakers management committee to develop a system, a training program and a follow-up service.

The financial management "package" for bakers was so successful that SRFMP Dakar decided to develop similar "packages" for other sectors. SRFMP went on to develop similar services for poultry farmers, tailors, doctors with medical clinics, and small retail "boutiques".

SRFMP Dakar has been setting up "consulting companies" that will continue to provide training and services for fees after the project ends in December 1990. Small business finance now represents 75 % of SRFMP Dakar's workload.

SRFMP has also started to offer services in other regions of Senegal on a trial basis, and has held training programs in Kaolack and Ziguinchor.

THE PROJECT'S ENVIRONMENT

Dakar has a large and thriving small business community engaged in all sectors of economic activity. Few of these businesses, however, have any system of accounting or financial management. Most are run in a traditional fashion where needs are met on a day to day basis according to cash available in the till. Consequently many small businesses, even successful ones, operate in a marginal way.

Each business sector has different problems and needs; each sector's proprietors have varying degrees of formal education and skills. The SRFMP has used a bottom-up approach to devise financial systems that meet these needs.

It is possible that Dakar provides a sufficiently modern environment (as education level rise and influence from abroad proliferates) that small business owners are receptive to the type of services offered by SRFMP. As yet no other organization is offering a similar service in the Sahel.

SRFMP's recent experiment of offering services to businesses in Kaolack and Ziguinchor will provide a comparative sample of businesses outside of the capital, which may permit some conclusions to be drawn about capacity for innovation.

HOW THE PROJECT WORKS

The SRFMP Dakar office is staffed by an expatriate manager and four local professional staff.

SRFMP' staff select potential sectors (e.g. tailors, bakers, etc.)and then set out to "prospect" the businesses in that sector by streetwalking the neighborhoods. The prospectors introduce the SRFMP, ask about book keeping systems and try to get the business owners interested in participation.

When enough business owners are interested (more than 20) SRFMP staff conduct a detailed analysis of their businesses and their existing systems. Business owners are formed into a work group so that SRFMP staff can establish needs and priorities.

New systems are designed by SRFMP staff, incorporating systems in current use. These systems are tested through simulation exercises in the workgroup. The workgroup's job is to agree on a practical and workable set of financial management documents to be used by all business owners in their sector.

When the system is ready certain members of the workgroup are invited to become trainers. The trainers work with SRFMP staff to design sessions, exercises and simulations in order to explain the use of financial management documents to business owners in a practical and interesting way.

By the end of this process SRFMP has a group of trainers, a book keeping system and a training course for teaching the system.

SRFMP sells its services : business people pay a fee to attend a 6 day workshop. Training is in the afternoon (12H00 - 18H00) so that participants are not distracted too heavily from their work. The minimum qualification for participants is they must be able to write. This workshop costs CFA 30,000 for bakers and CFA 10,000 for other sectors. The price includes lunch, training materials, documents for implementation and one follow-up visit by consultants.

Following the workshop participants may join the continued program. Every two months the participant receives a one-day visit by two consultants who go through the businesses books. The participant is helped through any problems and given further training.

At such visits the consultants themselves do not do the book keeping. Follow-up is structured and consultants apply a fixed method to their review of client accounts;

training is given according to the clients particular needs. Following the visit participants are brought together for a half-day meeting to discuss problems and advance their training. The consultants use follow-up visits to ensure that the system works well. Follow up visits are made every 3 months and costs CFA 30,000 each for bakers, CFA 10,000 for doctors and poultry farmers, and 5,000 each for tailors.

Training is complete when participants keep records correctly and up to date, and are able to use figures for taking management decisions : one baker who saw that his ratio of labor costs to sales was far higher than average took a decision ... he bought a second oven.

Participants purchase copies of accounting documents from SRFMP as necessary.

RESULTS

Since SRFMP Dakar began offering the financial management package for small businesses, 120 clients in Dakar and 50 clients in Kaolack and Ziguinchor have been trained. Only 20 per cent of the total number have not subscribed to the follow up program.

SRFMP staff judge that their clients get immediate benefit out of using the system by being able to differentiate business funds from personal funds, undergo a change in mentality regarding the relationship of family to business, and are given a system by which they can control family consumption. Clients learn to use the system not only as a means of control but for decision making, but this can take 2 to 3 years.

SRFMP has already created one semi-autonomous management association. The Bakers Management Committee has two members working as full time consultants and four as part time, and now handles all training, follow-up and printing and sales of accounting documents for the bakery sector. The Bakers Management Committee charges for its services and is now covering over 90 per cent of its costs (transport, salaries and printing).

The SRFMP staff have recently formed a non-profit organization called the Action Consulting Association. This association has won a contract from USAID to develop a financial management system for small retail "boutiques". Boutique owners will pay for services but such payments are not expected to cover costs in the near or medium term.

STRENGTHS AN WEAKNESSES

SRFMP's financial management packages are designed and then modified to meet the needs of the end user Because the package meets needs, end users are prepared to pay for services. Payment not only proves the value of the service but provides the means of continuing to provide services once donor funds have been spent.

SRFMP has intelligently incorporated businessmen into system design and training. When trainee businessmen see their own colleagues teaching this has an important psychological impact. Training materials are developed locally (they are not the output of foreign business schools with names changed to give local color). Training is practical and not didactic.

By involving business people from the outset SRFMP is creating local groups who have an investment in the financial management package who can potentially take over the delivery of services. Forming such associations has other potential benefits (legal and tax assistance etc.).

By requiring payment for services the SRFMP programs retain businesspeople who are open to innovation. The impact of training and follow up services is likely to be high.

Training and follow-up are expensive, however, and fees do not presently cover the cost of services except in the bakery sector. Certain sectors (boutiques and tailors) may require subsidy.

THE FUTURE

The SRFMP, will end in December 1990. Because the Dakar office has shown good results (it is the only regional office working with small businesses) USAID, Dakar is currently reviewing the possibility of extending the program.

PART III

SMALL BUSINESSES AND THEIR ENVIRONMENT

A. QUESTION OF TERMINOLOGY

In the 1970's, experts began looking at the potential of small-scale enterprises in rural and urban areas as factors of economic development. Such activities were given a variety of labels. Small labor intensive production activities were called "cottage industries" in reference to their rural artisanal character. Other terms alluded to the clandestine nature of their output, called "Z-goods". Also the more familiar terms such as "small enterprise" and "informal sector" came into usage. All definitions were affected, however, by the fact that there was little concrete evidence to show the economic or social significance of these enterprises, or how to improve their performance.

Although more is now known about small businesses, the terminology presently used to categorize different types of activity remains diverse and generalized. Conferences on small business promotion regularly (and often involuntarily) devote part of their agenda to a debate about terminology which rarely reaches any consensus. The debate is an unsuccessful one for several reasons. First, the participants at such conferences come from different professional backgrounds and see different solutions to problems of small business promotion. Second, the same participants seek different outcomes from promotion activities (poverty alleviation, employment generation, economic growth etc.). Third, the subject of such conferences (small business, micro enterprise, the informal sector, etc.) is a vast one, about which there is still a relatively small amount of information. Present terminology tends to lump together activities that are widely different in size, scope and type; that are different in their needs; and that function under widely different constraints from country to country.

Whether terminology matters is another issue, as William Shakespeare observed " A rose by any other name would smell as sweet.". However we have become progressively more engaged in the old Confucian hunt for definition: classify something or someone correctly and you know how to act. This process has been unfruitful to date because classifications have been based on limited and descriptive data. The classifications derived have been broad and have described businesses in terms of type or size, but have not yet categorized businesses in terms of needs. This means that so far we have classified in ways that cannot lead to action. For example, calling a business a "microenterprise" does not tell us anything about how it is managed, its needs for financing, or its constraints by government regulation.

To an extent, describing an enterprise as "informal" is more useful than describing it as "micro" because it relates to a need. This classification implies a need, that in order to grow businesses need to function in a fair and enabling legal structure, and thus indicates a course of action through political and legal reform. But even describing an enterprise as informal has its limitations. It does not tell us if one informal business will gain more by becoming formal than another, or indeed a business will gain at all.

Nor does it tell us anything about a business's other needs (for credit, technical assistance, etc.).

How we categorize small businesses should therefore be related to the methods that can be used to promote them. Each category should be differentiated, however, because each business needs different types of services within that category. For example amongst businesses needing loan finance, one may need cash in small amounts on a weekly basis to buy merchandise whereas another needs larger longterm financing to buy equipment. Both these businesses need loans, but the process of lending to one may be quite different to lending to the other. Some preliminary suggestions for needs-orientated classification are provided in section 2 of this report.

A search for new types of classification that lead to action, does not invalidate current terminology which has so far led to a better understanding of how and why small businesses operate, and under what conditions. Section 3 of this report attempts to apply these terms to small businesses in the Sahel, in order to describe the current situation and also to draw attention to the limitations of the terms themselves.

This report has used the term "small business", which encompasses all profit oriented ventures, in any kind of non-government occupation, involving one to fifty people on a full-time or part-time basis.

B. DATA COLLECTION ON SAHELIAN SMALL BUSINESS

1. Refining on Present Classifications

Donor agencies have only been collecting data about Sahelian small businesses for a relatively short time. Surveys have generally been of a "rapid reconnaissance" nature to gather information for status reports, and have not specifically been designed for use as the basis of designing assistance programs. As will be noted, research has been orientated by donor priorities and there are large variations in scope, detail, amount (and quality?) of information from study to study. The two most recent studies carried out in Senegal have begun to provide the type of details that can be used in assistance program design.

In order to reduce the uncertainty of the environment in which they operate, and alter the hit-and-miss fashion in which small business promotion activities are planned and implemented, donor agencies must now increase their research at the same time as being more focused (more practical) and more methodical in their efforts.

On the basis of new research findings, Donor Agencies may begin to classify small businesses according to their needs, and in ways that can lead to action.

2. A Summary of Existing Data

Highlights of all (known) surveys to date are listed as follows:

- Nouakchott (Mauritania), 1977, ILO

A census estimated a total of 2936 informal sector enterprises, of which 2016 were in commerce and 920 in production. In a follow up survey of 323 enterprises in manufacturing, each employed an average of 4.8 persons of which one-third were apprentices. At the time of the study, the working population of Nouakchott was about 70,000, of which an estimated 8,400 were employed in the informal sector. The modern sector employed 5,500 people throughout the country. Informal enterprise business owners earned two or three times the official minimum wage for skilled workers.

- Ouagadougou (Burkina Faso), 1977, ILO

The study estimated that 73 per cent of Ouagadougou's working population was engaged in the informal sector. In a detailed survey of 300 enterprises(of which 74% were in artisanal activities, 14% in commerce and 12% in transport), the average size of businesses was two persons; 46% were illiterate, but only 9% could read and write; 88% of the business owners did not keep accounts.

- Banjul (The Gambia), 1980, ILO

A survey of 222 small businesses with less than five employees was conducted in two neighborhoods of Banjul. About half the establishments were owned by non-Gambians. Of 681 working people enumerated, 54% were apprentices and only 4% were paid employees; most of the apprentices were newly arrived migrants from rural areas. 86% of the business owners had trained as apprentices, but only 20% had been to school.

- Niamey (Niger), 1982, ILO

A study of the informal sector in Niamey enumerated 13,285 enterprises in production, service and commerce, of which 5737 had fixed locations and 7,548 were ambulant. The average number of employees per business was 1.6 persons. 76 % of business owners were illiterate. The average salary of wage-earners was above the formal sector minimum wage for production work.

- Bamako (Mali), 1978, ILO

This informal sector census, which excluded itinerant vendors, enumerated 16,859 enterprises, of which 67% were in commerce, 24% in production, 8% in services and 1% in construction. The "modern" informal sector consisted of 1,160 enterprises. Capital investment per business was low: 66% had capital valued at $216 or less, and only 6% had capital worth more than $2,160. Only 6% of businesses kept a record of receipts and expenses, or any more sophisticated accounts.

- Bamako, 1986, Woillet

This study estimated that 55 per cent of the active urban working population were employed in the informal sector, compared with only 18 per cent in the formal (state and modern private) sector. The informal production sector was estimated to employ 100,000 people. The informal "modern" sector was estimated at 1,200 firms, none of which employed more than two or three people, except in construction where the figure was closer to ten.

- Dakar (Senegal), 1974, ILO

This study, with a Marxist view, surveyed 285 artisans, 100 temporary workers, and 80 producers and traders in a poor but active section of the city. Of the artisans, only 12% had received their training in a formal school. It was noted that apart from shoemaking and some handicrafts, most producers relied on goods originating directly or indirectly from outside of Senegal.

- Dakar, Thies, Zuiginchor, (Senegal), 1988, USAID

This credit needs survey undertaken by the Kaolack Small Business Program, surveyed 100 businesses with fixed premises (42 in commerce, 46 artisans and 12 service enterprises). 41% of the business owners kept some form of written records, but only 3% had an accounting system. 43% of the sample had bank accounts but only 5% had ever taken bank loans. 10% had received loans from family and friends. 43% of the businesses bought goods from suppliers on sixty days credit, and in 23% of cases the goods bought on credit were more expensive - an average of 30% more expensive - than those bought for cash. Average sales turnover of the businesses was CFA 6.6 million.

- Dakar, (Senegal), 1989, USAID

A census of fixed premises microenterprises (with less than 10 employees) was conducted in Dakar and its close environs, and identified almost 30,000 businesses employing 57,000 people, of which 72% were in commerce and 28% in production, services and transport. A detailed follow-up survey covered 558 microenterprises in production, building and services. Of this sample, 80% had apprentices (an average of 4.7 per enterprise) but 70% of them were recruited on a non-family basis. Few of the businesses bought goods wholesale, but were supplied by other small businesses close-by. 55% of the businesses said their main customers were households but there were significant linkages with large formal-sector enterprises as well as other informal enterprises. 19% kept a record of accounts and expenditures. 29% had a bank or savings account, and although 86% of the sample said they wanted to get a bank loan, only 2% had succeeded. 80% of interviewees used savings as the primary source of starting their business, and 17% used family money. Only 24% of the respondents said they paid the business license fee (patente). Regarding other taxes, only 1% paid anything on the business profits tax (BIC) or the general income tax (GIR), 3% paid the service tax (TPS), and 12% paid the stamp tax. Virtually no-one paid social security or insurance (IPRES) charges.

3. <u>Problems with Data Collection</u>

- Limitations of Methodology

Although some studies have attempted to enumerate the number of small businesses in a given survey zone (ie. a capital city) all of the studies are based on rapid reconnaissance of random samples of small businesses, but in no case have systematic sampling techniques been used. Surveys have been carried out within a limited time frame, often under the supervision of outside researchers. Questionnaires though often detailed have been based on superficial interviews, and quality of the data is uncertain.

- Limitations in Focus of Research

The design of questionnaires has inevitably mirrored objectives of the institution funding the research. Thus, for example, ILO surveys are concerned with education standards, apprenticeship, wages and other factors affecting the capacity and conditions of the workforce. The donor preference for artisans over merchants has predominated. Research has tended to be academic and findings have been descriptive (number of employees, type of occupation etc.) rather than provide the basis for action. Surveys have been limited in focus to describing small businesses as atomistic actors and have not explored the links of small businesses to other parts of the economy.

4. How Data Collection could be Improved

Several donor agencies have appreciated the limitations of existing data and are proposing to undertake more detailed and more useable research. One of these is the Regional Program on Enterprise Development for Africa, a research and development program proposed by the World Bank; another is USAID's GEMINI program. Because so little is known, these programs have outlined comprehensive approaches to gathering information about small businesses and their environment.

To avoid the risk of taking on too much at once, research should be focused in order to facilitate and improve the promotion activities that are already achieving some success. In a second phase further research could be conducted to find ways of improving less effective services as well as trying to identify completely new methods of providing assistance.

Instead of using an atomistic approach, as it were putting the small business under a microscope, the next stage of research should be trying to give us a view of the world from the enterprise looking out. To appreciate the true nature of needs and constraints we need to understand the linkages between small businesses and larger businesses, banks, informal credit sources, government, and other small businesses. For example it is well known that small businesses do not have access to bank credit, so donors start up credit programs. But larger businesses that supply goods on credit to small businesses, do have access to bank credit. For example,researching the linkages between banks, large businesses and small businesses, may show that a better approach than making working capital loans through credit programs is by moving resources through banks and larger businesses.

The major research questions are as follows:

From which Sources do Small Businesses Obtain Financial Services (and how can more of these needs be met from local sources of investment) ?

Small businesses need capital for start-up, and then further financing for development. Development financing or credit may be long-term, for purchase of fixed assets, or short-term for working capital needs. Each of these (start-up, long-term development, and short-term financing) represent different needs, and may often come from different sources. Present research indicates that many small businesses are started with personal savings and develop by retaining their earnings. Other sources of financing are as follows:

Formal	Semi Formal	Informal
Development Banks	Credit Cooperatives	Extended Family
Commercial Banks	Supplier Credit Schemes	Money Lenders
Non-Bank Financial Institutions	Caisses Populaires	Money Keepers
Parastatal Small Business Organizations	NGOs	Tontines
	Donor Credit Programs	Savings Groups

(Vogel 1986; Siebel 1988; Otero 1989; O'Regan 1989)

Research now has to show us how small businesses use various sources of financing to meet their different financial needs. It also must show us how the formal, semi-formal, and informal sub-systems interact. Viewing these sub-systems from the enterprise outward will help us to understand how different financing needs are satisfied and at what cost, or to what extent there are gaps.

A particular focus of this research should be the identification of systems that mobilize local resources and an analysis of the constraints on such resources being used for business financing.

How Much do Fiscal and Legal Regulations Matter ?

Little is known about how the regulatory environment affects small businesses, as opposed to large ones, or how this affects the supply of basic goods and services (e.g. taxi rides and charcoal). Research should consider a range of different sizes and types of business to evaluate the extent (and why) they pay taxes and follow regulations, what it costs, and the benefits they gain. At the same time, it should consider the costs and benefits of informality and the use of alternative (traditional) systems to obtain benefits normally available to formal businesses (e.g. recourse). Analysis should establish the extent to which certain firms can benefit from policy reform, and which regulations are most worth changing; or the extent to which firms manage better in the traditional system.

Research should also analyze how the regulatory environment affects the production and marketing chain of certain goods and services, to see how this affects competition, innovation and growth in key sectors; also to see how regulations are interpreted and applied in practice.

How are Small Businesses Supplied with Technology (equipment), and Services?

Most small businesses get their supplies of equipment, know-how and other technical assistance locally. Little is known about local supply and support services, if these are adequate, whether the level of services they offer places constraints on the growth of larger small businesses, or how local suppliers can be assisted to provide better services.

How do Small Businesses Sell their Goods and Services (the marketing chain)?

The main purpose of being in business is to get sales. Little is known in a systematic way, however, about the market for small business goods and services. The level of crowding in different activity sectors (such as bakery and public transport) is not known. The logistics of marketing (how much stock commercial enterprises carry, whether manufacturers produce against specific orders or for stock, etc.) is not clearly understood. Nor are different types of market for small business goods and services. For example, in the USAID study of 558 artisans in Dakar of 1989 about 20 per cent of the sample said their biggest clients were big businesses or the government; the importance of subcontracting (and under what terms large businesses could be convinced to increase their use of such arrangements by promotion programs) is little understood.

What is the Strength and Diversity of the Local Economy, and the Capacity of Small Businesses?

In order to put the research issues listed above into any context, and as a condition to initiating small business promotion activities, research needs to give us a better understanding of the strength of the economic fabric in any country or zone of operation. At present, reports and project plans give summaries of past economic trends (although future trends are rarely predicted), but analysis is never provided as to how such trends affect the small business sector. For small business credit programs, such economic risks are important considerations and should always be considered at the program planning stage.

An equally important and related consideration is the profile of the small business sector in terms of capitalization and sales turnover.

How can the Purchasing Power of the Population be Increased to Reduce Limits to Growth ?

Small business growth and prosperity is directly related to local purchasing power. In turn this is related to macroeconomic factors such as agricultural prices, exchange rates and exports. Small business promotion has to be considered in relation to such factors otherwise donors risk investing to bring about changes that are impossible under the circumstances. Programs can only facilitate change, research into macro issues must identify constraints, and propose ways of overcoming limits to growth.

5. Towards a New Classification for Small Businesses

On the basis of more precise data it becomes possible to re-classify small businesses according to their needs in relation to different types of services that donor programs can facilitate or offer. Such classification provides a much more precise definition of target groups, helps to clarify donor objectives, and makes impact more evident and easy to evaluate. The types of classification may be as follows:

- Policy Reform

The mass of informal businesses should be segmented according to the marginal benefits different groups gain from policy reform. At one end of the scale we see groups like Mali's "modern informals" who remain on the fringes of formality for a few specific reasons, at the other we see traditional village businesses who have little to gain and are under no pressure to become legal. Donors wishing to assist small business through policy reform can have most impact by focusing on the needs of priority groups such as the "modern informals".

This type of classification is particularly important in the Sahel, where traditional systems provide an alternative to formal systems, and formality is perceived as a benefit by a small proportion of businesses.

- Financial Services

Amongst businesses that need financial services, some need long-term capital, others need short term facilities (some may need both at the same time). The amount of funding a business requires will also differ (depending on the size of the business). The terms and conditions under which different types of businesses borrow are further variables.

At one end of the scale we see groups of well capitalised small businesses, such as transporters and manufacturers who need term credit and can provide material guarantees, at the other end are marginal activities such as street vendors who need small amounts of working capital on a daily basis but can provide no material guarantee.

A classification of small businesses according to such needs, plus a clearer understanding of financial sub-systems (mentioned above) provides us with a distinct set of options for action.

- Technical Assistance

By classifying small businesses according to their need for different services (accounting, equipment repairs, etc.) and by seeing how these needs are already being met by local firms, enables us to provide services to target groups where local capacity is lacking, or shows us how to work with local firms to help them to provide better services.

- Marketing Services

Small businesses marketing needs at the level of the individual firm are often closely associated with other needs such as those to obtain regulatory changes (need to obtain licences), or obtain financing (need to finance a stock of finished goods).

According to this system of classification, emphasis is not placed on the search for global terms to describe many businesses, but the identification of many precise terms to describe single businesses. A single business will then belong to many categories.

6. Recommendations

Data gathering should be significantly increased. This should be conducted by support projects (such as the World Bank's Regional Program for Enterprise Development, or USAID's GEMINI) or any others. It is better that such data collection is conducted independently of the project planning process which not impartial, and is usually carried out under time constraints.

Data collection should always be conducted with the participation of existing local field programs, and with local expertise (sociologists, businesspeople, etc). Ongoing projects are one of the best reservoirs for research and have so far not been used as such.

Data collection should seek to obtain data that can be used practically, and which describes needs. Instead of seeking to describe individual enterprises, research findings should be giving us a view of the world from the small business person's perspective. Research should also be analyzing the linkages between small businesses and other sectors of the economy.

Methodology and quality of data collection should be controlled (and coordinated between different donor agencies). Such coordination and quality control will allow different countries and regions to be compared, as well as providing consistent data with which Sahelian small businesses can be uniformally classified.

Donor agencies should invest in data collection soon, before any further programs are planned.

C. OBSERVATION: CHARACTERISTICS OF SMALL BUSINESSES IN THE SAHEL

1. Limitations of the Present Classification

Most of the recent literature has sought to classify small businesses in the Sahel in various ways. Each of these classifications has usually been appropriate to some degree. This section is an attempt to use these classifications as a framework for observations from the field.

This analysis puts observations from reality into an intellectual framework that has been invented without any particular reference to the Sahel, but has been used by experts to consider small business issues at a world level. This type of analysis is useful because it leads to a better understanding of the small business sector in simple terms. It is also useful because it shows up the limitations of this intellectual framework in the Sahel context. Because the terms used in this intellectual framework fail to define the reality with any precision, and are fraught with gray areas, they are not helpful to planning future assistance. Discussing Sahel small businesses is informative, however using these classifications for operational purposes provides no guarantees for success.

2. Marginal, Micro, and Small Businesses

Amongst small enterprises, three size-categories can be defined as follows:

- *Marginal Activities*

These are survival activities of the poorest, usually employing a single person. Such activities also often supplement agricultural or urban household incomes on a part-time or seasonal basis. These activities require tiny amounts of capital and no fixed premises, and examples are sidewalk vending, household activities such as needlework, and shoeshining.

- *Microenterprises*

Microenterprises employ ten or fewer full-time persons, generally operate from fixed premises and posses some capital (if often a modest amount). Such businesses operate in all types of activity: commerce, production, transport, services, construction, fishing, agriculture, etc. In the Sahel these businesses are traditionally managed and operated informally; they provide the large majority of the population with retail merchandise, transport, services, locally manufactured goods and agricultural produce.

- *Small Enterprises*

Small enterprises employ ten to fifty people, operate from fixed premises and are capitalized. At the smaller end of the scale they resemble microenterprises, but at the larger end often begin to show the characteristics of modern businesses (accounting systems, hired workers, etc.) Because growth attracts attention from the authorities, as well as putting a strain on traditional management, very few small businesses in the Sahel grow from microenterprises into small businesses.

Visual and anecdotal evidence, supported by research findings in other African countries suggests that relatively few microenterprises graduate or are transformed into complex small or medium enterprises; these larger small and medium businesses originate as such. Sometimes these complex businesses are started by people from the administration or modern private sector, sometimes with capital from traditional merchants but managed by family members returning from education or experience overseas.

3. Formal or Informal

Informal enterprises are those engaged in economic activities that do not comply fully with regulations governing those activities.

According to the above definition, almost all businesses in the Sahel countries are to some degree informal. These countries have inherited regulatory structures conceived for modern liberal economies with strong private sectors (particularly the ex-french colonies). Using this legislation Sahelian governments impose a heavy burden of costly and complex requirements upon businesses that are relatively fragile and poorly protected. Often these regulations are interpreted by government officials in an arbitrary fashion, and business owners have no formal means of appeal. Over the last ten to fifteen years there has been an increasing shift of activity from formal to informal sector. In the latter the trader, manufacturer or farmer can escape the erratic nature of government decisions, excessive tax, constraining labor rules and cumbersome bureaucratic procedures. An example of such businesses are Mali's so-called "modern" informals that provide 3,500 jobs in Bamako.

As well as being impossible to respect, the inherited regulations bear little relation to habits and customs embedded in peoples' mentalities and behavior. The traditional way of life, normal everyday life for most Sahelians, has its own mechanisms for redistribution of wealth, employment, social security, settlement of disputes, and trade.

It is instructive to consider the issue of traditionality in the context of informality and its costs and benefits (from De Soto).

- *Benefits of Informality:*

Greater freedom of operation including hiring and firing; reduced need to comply with regulations; less reporting; no delays awaiting official approval; freedom to diversify and to operate in areas where private activity is officially forbidden.

- *Costs of Informality:*

Little protection from courts in dealings outside the firm; increased exposure to extortion by tax collectors and others; reduced access to subsidized government services; no access to formal credit; a "glass ceiling" above which informal operations cannot expand without becoming formal, often at high marginal cost.

Traditional businesses settle their differences through the extended family, marabouts, and other mechanisms; tax, customs duties and other administrative levies are either avoided through the intervention of a family member in the administration, or by smaller informal payments to officials; subsidized government services are distributed through a patronage system that has its roots in the traditional structure, not necessarily because of conformity with regulations; in many countries informal businesses can have access to bank credit if they are old customers, have large sales turnover and (most important) can provide materializable security.

In this way, traditional businesses in the Sahel reap all of the benefits of informality while incurring few of the costs. Informality does, however, impose limits to growth.

It is also worth noting that formal and informal in the Sahel are not two simple options; there are many shades of gray in between. For example, the owner of a small construction company pays his monthly municipal business license (patente), but only so he can have his documentation in order to be awarded a contract by the town hall to build a school.

The attitude of government to this issue varies from country to country. In Niger, for example, the government officially refers to the traditional craft and trading sector as "informal" and is now pursuing a policy of "formalization"; which actually means it is trying to find ways of squeezing more taxes out of the (larger) Hausa traders. In Burkina Faso, on the other hand, the term "informal" is not a part of the official vocabulary; informal businesses are referred to as "microenterprises" to avoid marginalizing them, although they continue to operate beyond the law.

4. Traditional or Modern

Modern businesses in the Sahel somewhat resemble their counterparts in Europe and America:

- Business owners and staff have higher education,
- Accounts, management systems and procedures are used,
- Managers make longterm plans for future profitability,
- Employees are paid a fixed salary, by contract, and are eligible for social security and medical insurance,
- The business is open during set hours, and worker productivity is controlled during this time,
- The business uses support services of banks, accountants and other formal institutions,
- Modern equipment and technology is used, which is amortized and replaced periodically.

In reality, not all the Sahelian businesses termed "modern" display all these attributes, but as a minimum they use accounts and management systems, plan for profitability, and employ salaried staff.

Whereas modern businesses are entities in their own right, traditional businesses are an extension of the family or group. Management is patriarchal, and the family is at the same time the enterprise's asset and its liability as follows:

Strengths of Traditional Businesses

- The extended family provides a large network of contacts which will include suppliers, customers, civil servants, etc.
- Business deals are done on word; in case of contention, arbitration is carried out by the group,
- Labor is provided through the extended family on a subsistence basis,
- The apprentice system provides vocational training and a source of cheap manpower,
- The business is open every day (and all night, as necessary),

- Neither the owner or staff need to be educated or literate to manage the business (figures are normally kept in the owners head),
- Fixed overheads of traditional businesses are always kept low so that long periods of slack demand can be survived.

Weaknesses of Traditional Businesses

- Maintaining traditional relations in the extended family and group is a costly exercise (provision for weddings, baptisms, pilgrimages, etc.),
- The business cash box and the family cash box are one and the same; capital accumulation is severely threatened by day to day needs,
- Organization of labor and workflow is unstructured, workers are not financially motivated so productivity and output are low,
- Equipment is not amortized and replaced regularly,
- Business planning is short term,
- Management is not organized or delegated and this poses limits to growth
- When the business owner (head of household) dies, business assets are divided up between family members.

Traditional businesses dominate the artisanal sector, commerce (cereals, cola, cross border trade in manufactured goods, etc.) and have more recently taken over the transport sector in most countries. In Burkina Faso, clandestine imports of the traditional sector account for an estimated 30 to 40% of merchandise sold in the country. In Niger an estimated 80 to 90% of the countries economy is traditional, if one includes the agriculture sector.

Over recent years there has been increasing evidence of blending between the modern and traditional sectors. In Senegal, Mali, Burkina Faso and elsewhere, a new generation of traders educated in the west but imbued with the traditional methods is beginning to emerge. This group has a concept of management, possibly experience using purchase and credit facilities in Europe and America, and an openness to innovation. This emerging group is using the strengths of the traditional system, while limiting the weaknesses. In such enterprises, for example, staff are selected according to competence not on grounds of kinship.

5. Entrepreneurial or Survival

"Entrepreneurs are people who perceive profitable opportunities, are willing to take risks in pursuing them and have the ability to organize a business". World Bank report on Africa, 1989.

The term "entrepreneur" has become increasingly generalized in the vocabulary of donor agencies (e.g."775 entrepreneurs were interviewed by questionnaire in Bamako..."). The more precise definition given above implies that the individual has exercised a degree of choice in becoming an entrepreneur. The "entrepreneurs" of donor parlance, however, have never exercised a choice, they are "tacherons" who will never develop an enterprise. In fact they are not entrepreneurs at all, they are in business to survive.

Marginal activities and the majority of microenterprises are primarily concerned with subsistence. Prospects for growth are limited by:

- The feeble purchasing power of the population and the enormous proliferation of small businesses. In Burkina Faso, for example, the government estimates that there is one small business per eight families.

- The financial needs of families and xtended families, such that it is impossible for businesses to save and thereby accumulate capital.

Western entrepreneurs attempt to create business structures to serve market needs, with a longterm outlook on profitability. Egotism and the quest for a dream are often associated. Foreigners who manage finance programs for entrepreneurs in the Sahel are often surprised and disappointed that their clients are not apparently of the same mould. A common complaint of such managers is that after about twelve months, clients take the profits of their financed activity and consume it, or more usually invest in a separate activity or buy real estate.

Unlike their western counterparts, Sahelian entrepreneurs are more oriented towards short-term opportunities. Their businesses are not well structured to meet single long term objectives, indeed in one business there may be several mutually exclusive activities. Sahelian businesses are less like structures and more like flocks: assets are bought as opportunities arise, or sold to raise cash to secure other deals or to meet family needs. Sahel entrepreneurs are much more adept at buying and selling assets than their western counterparts, but not so good at getting performance out of them.

Despite all constraints, some entrepreneurs succeed in creating large business empires. Their skills in doing so are no doubt different to those required of successful entrepreneurs from elsewhere. In addition to perceiving opportunities, taking risks and having organizational skills, the successful Sahelian entrepreneur is someone capable of maximizing the benefits of the family and traditional mechanisms, while minimizing their costs to the enterprise.

6. Commercial or Artisanal

Although commercial and artisanal enterprises exist side by side in the traditional and informal economy, the two different sectors are at the same time mutually reliant and in competition, are perceived by the population differently, and have different potential for development.

Artisans provide a wide range of goods and services suited to the needs and purchasing power of the population. The craft sector has been becoming increasingly destabilized by the expansion of informal commerce. For example, cookware imported from Asia begins to replace articles produced by artisans. Traditional smelters can no longer match prices of imported merchandise despite the great difference in quality.

The population in general perceives artisans (as artisans do themselves) as people who make or repair things, not as businessmen. Such attitudes that have roots in the ancient caste system, mean that artisans rarely seek the role of manager or merchant, so that artisans' workshops rarely grow into small industrial manufacturing firms. Small factories are usually the investment of businessmen in commerce seeking to channel production into established trading networks.

7. Urban or Rural

Much of the existing literature on small business in the Sahel, not to mention donor initiatives, try to stress the differentiation between urban and rural businesses. In fact urban and rural businesses are remarkably similar and are inextricably linked.

The majority of the Sahel's population is rural and absolute numbers of small business in rural locations is much greater than in urban areas. Recent research by Michigan State University in three regions of Niger (to be published) supports this. Size and potential for growth of these predominantly marginal activities, however, is often very limited.

Most city dwellers in the Sahel have origins in the country and maintain close links with their families in villages. There is constant interaction between urban and rural areas both socially and commercially. The city serves as a market for agricultural products, charcoal, handicrafts and other goods which are grown, collected, manufactured and transported by rural businesses. The villages are a market for manufactured (often smuggled) goods of all types including tomato paste, second hand clothes, mentholatum ointment, bicycle spares and women's beauty products. Rural businesses are almost always subsidiary to farming.

Rural businesses are managed in the same traditional fashion as most urban businesses. They differ to the extent that they are often seasonal, and operated as subsidiaries to agriculture; also those rural businesses not selling into urban markets are often survival activities, constrained by the low purchasing power of the rural population.

D. THE SMALL BUSINESS ENVIRONMENT

1. Small Business Tries and Often Succeeds in Coping with a Risky and Tricky Environment

The environment in which Sahelian small businesses operate is not well researched and documented, and is very poorly understood by donor agencies. While the situation varies a good deal from region to region, and country to country, certain common features can be determined for the region. These common features are due to climate and geography and (for most countries) due to the common colonial heritage of a shared currency, shared banking regulations, and a similar legal and fiscal structure.

Sahelian small businesses function under difficult circumstances. The most serious of these is poverty itself; the purchasing power of the population is extremely low. With regard to constraints which are more influenced by human factors, such as the cost of factors of production and legal and tax problems, small business owners find ways to adapt and survive. This section gives an overview of the constraints, and ways in which the small business owner may overcome them.

2. Economic Stagnation and Drought Cycles

Each of the Sahelian countries has had its own particular experiences during the last fifteen years, war in Chad, revolution in Burkina Faso, in addition to which regional and international factors have affected them all: drought, downturn in the world market prices for primary products, and debt.

The Sahel countries rely on the sale of primary resources for almost all of their export earnings. The 1980's saw a dramatic decline in prices for such commodities. In Niger, uranium accounted for 15 per cent of GNP and 80 per cent of export earnings in 1981, until prices collapsed in 1982. Chad experienced a similar situation with cotton that provided 80 per cent of its export earnings prior to a price collapse by 40 per cent in 1985.

Agricultural commodities suffered the double blow of drought and world market price drop. Mali whose major exports are cotton, livestock and gold experienced a decline in its terms of trade by 20 per cent since 1980. The Malian cotton industry, one of the most efficient in Africa and even standing comparison with those of countries in Asia, was subject to the climatic uncertainties of the Sahel. A good yield in 1977 of 190,000 tonnes dropped to a yield of 100,000 tonnes in 1982, which increased to 145,000 tonnes in 1985 and again to 200,000 tonnes in 1987.

Such external factors have had an important influence on the lives of most of the population of the Sahel, about three quarters of whom get their livelihood from the land. For example 70 per cent of Senegal's population is dependent on agriculture, of which groundnuts occupies 70 per cent of the cultivated acreage. The drought of 1984 reduced farmers incomes by 35 per cent. Today the world price of groundnut oil brings Senegal no profit and the price is falling constantly.

This situation and other factors have put all of the Sahelian countries into deepening debt. Mali's debt servicing in 1987 alone was 31 per cent of public revenues. The only country in the Sahel that has foreign currency reserves is Burkina Faso because Burkinabe expatriates send home CFA 30,000 to 40,000 million a year. In 1987 Burkina had a positive balance of CFA 43,900 million in foreign reserves, compared with Senegal which had a negative balance of CFA 233,000 million and Niger which had a negative balance of CFA 19,200 million.

What of the future? Unfortunately the Sahel's present economic difficulties influence its potential for development. For example, the cost of agricultural factors of production is high but conditions mitigate against the lowering of such costs. Investment in facilities to factory-process local crops, however, is very risky because droughts cause supply problems; also production is open to competition in African markets by clandestine international trade, and is exposed to price fluctuation in international markets.

Donor agencies wishing to set up viable small business credit institutions, or work with informal credit and savings organizations, must not take a sectoral approach to lending but find ways of spreading risk in many sectors.

<u>Donors should consider means of promoting diversification away from the agriculture/raw materials base, and on production for the local market and export, but many factors (discussed below) operate against it.</u>

3. <u>Population and Markets</u>

In 1987, the author was studying a loan request from a manufacturer of two-wheel horsecarts (charrettes) in a town in rural Senegal, for the purchase of raw materials. He was asked to give an estimate of the number of potential clients for horsecarts in the local area. He was the only manufacturer, so made a calculation based on the number of villages and soon estimated that several hundred clients would be interested. Given the potential importance of the market, the manufacturer was asked to explain why presently he only made four horsecarts a month. He explained: "Many clients want my horsecarts. Unfortunately they have no money".

Purchasing power of the population in the Sahel is extremely feeble. As businesses exist to sell things, lack of purchasing power has a profound influence on how business activities develop and on the social and economic benefits they generate. Consider the following table from the World Bank development report for 1989:

	Pop. Millions	$ GNP Capita	GNP Growth Rate % 1965-87	Urban Pop. % of Total
CHAD	5.3	150	-2.0	30
BURKINA FASO	8.3	190	1.6	8
MALI	7.8	210	-	19
NIGER	6.8	260	-2.2	18
MAURITANIA	1.9	440	-0.4	38
SENEGAL	7.0	520	-0.6	37

Source: World Development Report 1989

Economic activity is closely related to the size of the population and the level of its disposable income. Differences in composition of the population (Rural vs Urban) and its propensity to consume different kinds of goods (ie. not only cheap Asian enamelware but relatively more expensive better quality locally made household items) provide important characteristics determining the nature and development of small businesses.

Limited purchasing power and the nature of consumer choice influences the way in which the small business trades are defined. Distinct trade sectors (bakeries, taxis, builders, millers, jewellers, etc.) that serve peoples' basic needs, are crammed with competing enterprises. The potential for businesses to innovate or diversify out of these tight groupings into new activity areas is limited. A business person's experience (usually gained by apprenticeship) and the consumer's willingness and ability to try alternatives, reinforce the sectoral pattern.

In the rural areas, purchasing power is much lower and more seasonal than in the town, and population density is low and widely distributed. In Burkina Faso, for example, it is estimated that there is one business per eight families. What most of these businesses represent (a sleeping blacksmith, a table with some canned sardines and some plastic packets each containing five pieces of macaroni), what they bring to their owners in terms of income, and where their future lies, is another issue.

So what of external markets and exports? Although the crafts sector has responded well to tourism (the Dogon masks look more antique year by year) this only provides a small and seasonal market. As discussed later, exchange rate issues make the terms of trade very unfavorable for producers in most Sahelian countries. Some countries such as Mali even tax the export of certain items, such as handicrafts.

Small business promotion activities (eg. policy reform and credit) can facilitate change, but businesses can only grow if their markets grow. Donor agencies cannot plan promotion activities usefully without taking purchasing power and markets into account.

The nature of Sahelian markets is such that small businesses are organized into distinct trade groupings (like guilds). Donors should be aware that the nature of these groups imposes limits on the type of business growth and innovation that they would like to encourage through promotion activities.

4. Factors of Production

The cost of all factors of production are very high in the Sahelian countries; however, small businesses have ways of reducing these costs including using second-hand equipment, re-cycling or using local raw materials, using family labor, and evading regulations. But such resourcefulness becomes more difficult as businesses grow.

a) Transport

As most of the Sahel countries are landlocked, freight costs increase the price of all imported raw materials and consumer goods as well as raising the delivered prices of exports. For example, the railway journey from Abidjan to Ouagadougou takes 3 to 7 days and freight cost for one tonne of cement is CFA 15,995. In 1988 Burkina Faso exported 5,000 tonnes of fresh green beans and other vegetables by airfreight to Paris. It would have exported more but the airlines were not able to give additional freight space because return trip volumes were limited.

Internal transport facilities vary considerably from country to country. Where railway lines exist, services tend to be infrequent and are primarily used for transport between countries. Most people travel by road. Senegal, for example has 15,000 km of roads (the densest system in Africa) of which 3,500 km are surfaced. Chad, on the other hand, has less than 200 km of surfaced roads. Vehicles and fuel are available (if costly) in most countries and transport services are mainly provided by small businesses in a relatively inexpensive and, under the circumstances, efficient manner (e.g. Dakar to Kaolack, 200km, costs CFA 1200 and vehicles leave at least each 30 minutes throughout the day). Taxi busses and Peugeot station wagons carry people and baggage on a once-full-depart basis. Main routes between major towns are frequently served, further and smaller rural communities proportionately less so. As Sahelian people are constantly on the move, public transport is a major small business activity.

b) Equipment, Raw Materials

The CFA franc means that imported equipment and raw materials are readily available. In CFA countries these items are heavily taxed, or made by protected local industries at high cost, which means that neighboring non-CFA countries import at lower tax rates and sell across their borders (more of this later). Either way, imported equipment and raw materials are expensive (as a general average, twice as much as in Europe). Small businesses therefore prefer to use second-hand, locally made, re-cycled or smuggled goods. Here are some examples:

As part of its Structural Readjustment program, the Senegalese government relaxed import restrictions and customs tariffs on second-hand motor vehicles and spare parts. Merchants started importing second-hand delivery vans and other vehicles from Belgium, and container loads of used parts from scrap-yards in France. As a result, in 1986, before changes, a businessman had to invest about CFA 12 million to purchase and fit out a 12 seater minibus. In 1989 he could buy and refit a four year old grocery van and be in business for CFA 4 million. Second hand spares, locally known by the grand name "Venant de France" are sold at a fraction of the price of new parts.

In Burkina Faso, buying a watering can locally made of recycled metal costs about CFA 1,500. The same article imported from France sells at CFA 11,000.

In Niger, a liter of gasoline sells at the pump for CFA 250, whereas the price in next door Nigeria is about CFA 30. Black market gasoline sells on the streets of Maradi at CFA 250 for four liters. Niger's metalworkers, famous for the quality of their cooking pots smelt with scrap aluminum from Nigeria at CFA 200 per kilo.

c) Utilities

Rural areas are without utilities and rely on wells, kerosene lamps and diesel power (for saw mills, millet grinding, etc.). Even in some urban areas provision of utilities is sporadic, for example the companies in the industrial zone of Bamako supply their own water.

All utilities are expensive. According to the World Bank, Chad supplies the most expensive electricity in the world. A kilowatt hour of electricity costs CFA 55 in Senegal, compared with CFA 20 in France.

Some small business owners find ways of reducing this burden. The author recently visited an artisan in Chad who negotiated privately with an official from the state electric company to settle an outstanding electricity bill of CFA 60,000 for an informal payment of CFA 10,000. In Senegal the author has on one occasion been invited into a telephone exchange by acquaintances working there to place an international call at no charge. Such services are available to others.

d) Human Factors

Educational standards are low throughout the Sahelian countries. Consider this table:

Elementary Education - Enrollment of Children of School Age

Burkina Faso	20.4%
Niger	23 %
Mali	27 %
Senegal	39 %

As we note from existing surveys of small businesses in the Sahel formal education standards are very low, however, on-the-job apprentice training is common.

Higher education in the Sahel countries is ill-adapted to private sector needs. The graduates of universities and technical schools have been trained to enter the civil service. Even today, although the public sector is in decline, students still use the same curriculum. For example, in Mali, the modern private sector has great difficulty in finding qualified personnel. At the same time fewer than 50% of graduates from Malian technical schools are able to find employment with private industries or artisans or on their own. Often there is an attitude barrier, where graduates believe themselves entitled to white collar positions at elevated salary levels.

<u>Many previous and current small business promotion programs have required loan recipients to purchase new (duty paid) equipment and raw materials, regardless of the clients own interests. Such programs should in future allow clients to make their own choices in such matters.</u>

5. <u>Legal and Fiscal Framework</u>

a) Registration and Licenses

Company registration confers legal status on a business. The process of registering a business varies greatly from country to country. Senegal has the simplest and least costly system: businessowners obtain a "carte de commerce" from their local Chambre de Commerce at a cost of CFA 2000. Registering a small business in Mali requires visiting ten different offices in different buildings around Bamako (if one is lucky to succeed first time) as well as payment of a tax (patente) and notary's fees based on a sliding scale according to the capitalization of the firm. None of these steps or requirements are published anywhere. In Chad, registration involves paying a tax (patente) of CFA 30,000 to CFA 150,000 which is based on an assumed future sales turnover. Obviously, in all countries other than Senegal, small businesses avoid registration particularly because official status provides few advantages, except in some countries for certain activities such as obtaining import licenses.

Apart from company registration, many small business activities are controlled by license. Ostensibly these licenses are required in the interest of public safety (e.g. taxi licenses), to protect the environment (e.g. issue of permits to cut trees for charcoal), or to "manage" surplus capacity in the marketplace (e.g. daily quotas for bakeries on bread production). Where such licenses cannot be had by official means, they are organized through family contacts, or provide a rich source of personal revenue to government controllers.

b) Tax

The majority of the Sahel countries have inherited the French tax structure. This structure has about 30 different taxes (28 for Senegal,33 for Niger) which include income and profit taxes, payroll taxes, taxes on property, taxes on goods and services, tax on vehicles, excises, business license fees, taxes on foreign trade, and stamp duty. Most of the direct taxes are not applied to small businesses. Government agents usually only pursue small business owners for payment of the business license tax (calculated according to sales turnover, number of staff and value of equipment) or the liquor license if applicable. When an activity becomes more established or prosperous, tax collectors may apply corporate profit tax (BIC) or individual income tax (IGR). Vehicle taxes are constantly controlled by policemen and gendarmes. Apart from direct taxes, small businesses are indirectly taxed or dutied on most of the items they buy for use or sale: petroleum products, soft drinks, cola, tea, tobacco, cement, etc.

Because taxes have to be assessed by officials there is always an element of negotiation involved. Accounts and sales records are very rarely accepted as evidence at this level. Many small business owners find it easier, where possible, to "arrange" the situation by making payments to officials themselves. Otherwise, business owners prefer to keep a low profile and never let any of their activities grow to the point that they attract particular attention. Profits from activities are continually divested into subsidiary ventures.

Life becomes complicated when a business activity requires official sanction (an import business, a medical clinic, a night club). The business owner pays whatever taxes are required to be operational, and avoid whatever others he can (payroll tax, etc.). Any sidelines to the official business are usually conducted informally.

Contrary to their tax evader image, following a study of ten SubSaharan African countries, the ILO estimated that 40 per cent of informal sector enterprises pay fiscal taxes or registration fees. According to the World Bank, taxes on licenses for small repair shops and street vendors provide a major share of municipal revenues in cities such as Bamako and Ouagadougou. On the other hand, in USAID's study of 558 artisans with fixed premises in Dakar, only 24 per cent paid the business license tax, and virtually no-one paid any other form of tax. Evidence indicates that the small business tax situation varies a good deal from country to country (or possibly that research conclusions are inaccurate).

As many countries are suffering from a budget deficit (and as the donor agencies are pressuring them to be better tax collectors) having now bled dry or marginalized the modern sector, certain governments are now starting to pursue the small business sector. The government of Niger is now looking for ways to tax the larger traditional traders. Having already imposed a property tax on the traders' business premises, the government is now considering ways of controlling and taxing the clandestine Nigeria border trade, and has suggested that it may require the traders to keep written accounts. In September 1989, the government of Burkina Faso imposed a license requirement on all mobile street vendors of CFA 6,000 for the right to do business. The government of Chad is now requiring all small business owners to come personally to the tax office and regularize their affairs on the threat of having to pay penalties and back taxes if controlled at a later date.

c) *Customs Regulations*

In Burkina Faso, the customs clearance procedure is simple in principle: origin of the goods on the invoice is not obligatory (except for produce from West African Economic Community countries), a definitive invoice is all that is required; the products do not need to be marked with their country of origin; there is even a procedure for immediate collection where goods can be taken away before the customs declaration has been submitted. Unfortunately the Burkinabe customs officials negate all these positive factors by their own rigorous interpretation of the laws and regulations.

In Mali, obtaining an import license (13 copies) and officializing it involves visiting five different places, payment of a series of fees and a minimum delay of two weeks. The form has to be typed and accompanied by other company documents that also require authorizing. None of these procedures are published anywhere.

Malian customs duties are very high and are set according to "official values" fixed by a commission of customs officers and members of the private sector. Official values are set much higher than world market prices, in theory to protect domestic products. For example sugar is subject to 11 per cent duty on an official value of CFA 404 per kilo. However in Dakar the Senegalese government price for sugar is CFA 165 per kilo, and in Banjul the price is CFA 90 per kilo, so sugar is simply smuggled in.

Faced with this extraordinary bureaucratic morass, small businesses make other arrangements. Happily, next to every CFA country there is a neighbor with a non-convertible currency to shop in. These countries have adopted a policy of very low customs tariffs (e.g. Guinea applies a maximum tariff of 17%). Smuggling is impossible to control along long land borders. Smuggling is well organized through families living on each side of the frontier, indeed whole villages thrive from it. For example in Mali, during 1987 an estimated 30% of cigarettes and 60% of matches sold involved fraudulent practices. Smuggled flour imports from Mauritania to Mali are estimated at 70,000 tonnes per year.

Because it is so complicated to order shipment of goods from abroad, particularly in small quantities, small business owners simply go and get them. To a merchant selling shoes, or women's lingerie the cost of a cheap return airticket to visit the wholesalers of Naples or New York is easily offset by the profits of the venture.

In Senegal such commerce, in the tradition of Marco Polo, has developed an established network. More recently, the merchants have become resident in Las Palmas, Rome, New York and elsewhere. They purchase and package merchandise which is then collected by a trusted associate, taken back to Senegal and shared out to different retailers. The proceeds of the sale are collected at a later date and the profits shared between retailer, conveyor and purchaser. This form of trade, whose home is Sandaga market in Dakar, supplies a significant proportion of manufactures such as fashion products and cosmetics to the local consumer.

In countries such as Senegal, the airport customs officers are lenient on such merchant travellers. In others the merchants make their own private arrangements with the customs men.

d) Labor Code

The francophone Sahelian countries inherited a set of labor regulations that were entirely unsuited to their circumstances. Whereas a private sector salary and hiring policy should be designed to reward effective workers and empower managers to fire employees as necessary, the labor code, interpreted by the Bureau du Travail fixes wages and benefits, and makes staff dismissal costly or impossible.

Wage rates have been set significantly above the marginal product of labor. Consider these figures:

MINIMUM WAGE (SMIG) 1987 FCFA

Mali	109	Senegal	184
Niger	109	Thailand	130
Burkina Faso	114	France	1300

In addition to fixed wage rates, the labor code also requires that the employer pay medical insurance and social security for the employee, and payroll taxes to the government.

For example in Senegal, procedures are so complex that employers in the modern sector restrict their permanent staff to a minimum and take on temporary staff. After three months temporary work the employee is sent away and another person is hired.

Small businesses do not ever get involved with the labor code or the Bureau du Travail and nor does the administration expect this. Small businesses make their own traditional arrangements with apprentices, and with proportionally fewer employees on a wage labor basis. Research shows that these employees are often not paid too far out of line with the minimum wage. The administration's ambivalence over the labor code in the case of small businesses is another manifestation of their symbiotic relationship, the limits of which neither party seem anxious to define.

e) Legal Matters

In theory, the informal sector offers limited recourse when contracts are breached, property rights are violated or merchandise is misrepresented. In fact the Sahel's traditional mechanisms provide a system of appeal. Also in some circumstances small businessmen do use the court system.

It is difficult to generalize across so many different countries for such a heterogeneous group as far as recourse is concerned. It is probably true that the smaller and more marginal the firm, the greater the reliance on traditional mechanisms for appeal; equally the larger the firm, the more often the need to use formal procedures. As we have seen previously, there is no clear distinction between formal and informal firms, but many shades of gray. Businesses that use the legal system are "formal enough", and what that implies depends from region to region. In Senegal's peanut basin, for example, the population has experience of contracts and formal appeal through its dealings with the parastatal oil mill.

Traditional mechanisms function through the family, extended family, village or neighborhood, group or ethnic group. This is easily understood in the context of the village, where a committee of elders apportions land and communal resources, and settles disputes. In the urban context, the power of social sanction of the local group is diminished, but appeals can be taken to higher levels in the hierarchy (as discussed later).

As an alternative, the legal system is used. In Senegal, the police is used as a means of first appeal. In all countries the judicial system is complex, expensive and slow. Each case involves a series of steps (registering an appeal, compiling a dossier, deposing the dossier, several hearings, judgement, appeal, etc.) concerning clerks of court, lawyers and possibly bailiffs, and the payment of fees. Such processes are foreign and bear little relation to customary behavior. The results of legal proceedings may be influenced by social or financial pressure from one party or the other, so a fair interpretation of the law is never sure. Such are the reasons that small businesses tend not to use the legal system.

As people in the Sahel urbanize and modernize, for example quitting the communal land system and purchasing property by title, they involve official legal processes (Notaries etc.) and become obliged to use formal channels to settle disputes. The same goes for informal small businesses that enter into subcontracts with the administration or modern private sector enterprises (for construction of buildings, supply of furniture or factory clothes, transport, etc.).

f) Problems Changing Legal and Fiscal Regulations

Since the International Monetary Fund introduced structural adjustment during the 1980's, Sahelian adherents have begun to introduce some policy changes in favor of the private sector. One country, Mali, has also adopted a policy reform program sponsored by USAID. So far these polic. reforms, except in those countries that have reduced customs tariffs, have had limited impact on small businesses.

USAID's Economic Policy Reform Project (EPRP) is an adjustment program of economic, fiscal and regulatory reforms involving over $ 22 million in cash transfer to the government of Mali. Its objective is to reduce the costs to businesses of operating according to regulations in order to promote an environment favorable to the development of a stronger private sector. One of three components of the program is a revision of Mali's commercial code, and has led to a simplification of business registration requirements.

But getting changes in the legislation is difticult. Some observers have suggested that in countries where political power has taken on the attributes of a capital asset to be exploited and defended against all comers, the state has no wish to nurture the possible counterforce of a lively private sector. Whether this is true or not, there are complications at all levels:

- Capacity to Administer the Law is Limited

Any program to bring businesses into the orbit of the formal sector, where they have access to the courts and government services, will have to ensure that the courts or services will be able to handle the increased volume of business that results. The new Commercial Code introduced by the EPRP required for the establishment of commercial courts, but these have never been established.

Imagining a situation as exists in the U.S.A., where people and businesses are perpetually suing each other in court is impossible in the Sahelian context. In Senegal, for example, when the courts are not in recess (from August to October) they are overburdened, and a case takes about two years.

- Capacity to Alter the Law is Limited

The Manager of the Segou office of EDF's Mali program, held a meeting with the Chief Customs Officer in Bamako to try and negotiate some changes in customs regulations on behalf of his clients. The Chief Customs Officer said that he was open to certain of the propositions, but could take no action having no access to a legal advisor for preparation of amendments to present for government approval. In absence of any democratic pressure for change in legislation, the machinery for bringing about that change falls into disuse.

- Donor Agencies have Given Conflicting Signals about Change

The donor agencies fall into three broad camps: some feel that priority should go to upholding a strong state as a basic prerequisite for development. Some feel political institutions have proved their total incapacity and indifference, and seek to give private initiatives a chance until interest groups are strong enough to take over. Others feel they should not become too involved in state policy decisions.

- Changes in the Law may not Yield Results

Although the new commercial code introduced under the EPRP in Mali has simplified formal procedures and requirements for business registration, taxes and other procedures are still costly and onerous for registered businesses.

Even under Mali's new commercial code, government agents still go way beyond their mandate in imposing difficult conditions on businesses seeking to register. A similar situation occurred in Senegal when the government ended the state monopoly on buying, selling and processing peanuts; even three years later, officials were still harassing manufacturers of peanut butter in the markets.

- Governments may Change Back

Because the reform process is led by donors in dialogue with governments, sometimes reforms are accepted which in practice create unforseen problems. Such was the case in Senegal during November 1989, when having previously lowered import tariffs as part of its New Industrial Policy (1985) it raised them sharply again. The Dakar merchants had a one-day strike, but the government needed to increase its revenues.

- Interpretation of the Law may not Follow the Spirit of the Law

In Senegal, the production and transport of charcoal is controlled by permit, and such permits are verified by officials at road checkpoints. Even if a truck driver has his documents in order, the official will insist that he unload the vehicle so the number of sacks can be counted. Instead of losing one day of hard work, drivers prefer to pay CFA 1000. This clandestine tax is known amongst drivers as "Frais de Route".

Abuse of power is a normal affair for government officials who are sometimes unpaid, and apparently always underpaid. The example mentioned above is a common situation in any transaction with officialdom in the Sahel.

<u>Some small business promotion programs require their clients to be registered and up-to-date on their taxes. Although this often enhances the program's standing before the administration, it is not necessarily in the client's interest. Until the business environment improves substantially, programs should leave such matters to the client's discretion.</u>

<u>Donors should use programs, as well as independent research, to gather data on legal and fiscal constraints to enterprise development, in order to propose policy reform in an informed manner.</u> Programs should have a legal advisor from time to time to collect this data.

<u>The impact of policy reform on the small business sector is not always clear. This is because even under policy constraints the small business sector manages to co-habit with the administration over legal and fiscal requirements far better than the modern private sector.</u>

g) The CFA Factor

Most of the Sahel countries belong to the CFA franc zone whose currency is guaranteed by the French treasury and is freely convertible. The advantage of this situation for small businesses is that these countries can freely import fuel, equipment, raw materials and spare parts, which means that basic services (public transport, electricity and telephone) and goods are available. Business owners are spared the complex or clandestine procedures of obtaining foreign exchange like their counterparts in non-CFA countries.

However, the exchange rate set for the CFA franc against the French franc (FCFA 50 = FF 1) overvalues the CFA (some economists assess this overvaluation at more than 50 per cent for some countries). In simple terms the situation means that the CFA countries have great difficulty selling their products abroad, but find it cheap to import anything. CFA country governments have tried to limit this situation by imposing tariffs on imports, and controlling wages and salaries. As discussed earlier, the factors of production (labor in particular) are very costly in the CFA zone and make the cost of goods for export uncompetitive. Most manufacturers produce for home markets, and larger industries are protected by tariffs.

But government controls have been ineffective to some extent because an informal currency market has sprung up between CFA countries and neighboring countries with non-convertible currencies (Nigeria, Ghana, Sierra Leone, Guinea, Guinea Bissau, Gambia, Mauritania). These latter countries have made efforts to export their own goods, and re-export imported goods via informal channels in order to acquire convertible CFA Francs. Nigeria in particular, has been developing its manufacturing industry and is becoming a major supplier of goods to neighboring CFA countries, some say at dumping prices.

In Niger, for example, there is a booming import trade of smuggled goods of all types from Nigeria, such as medicine, soap, detergent, textiles, and plastic ware. Most of these goods are products of Nigeria. The purchase price of such goods in Nigeria is usually about half the equivalent purchase price of goods officially imported into Niger. Once smuggled in, they are sold in Niger at a price somewhere between the two. Unfortunately the trade is one-way. With the exception of seasonal agricultural products (such as onions and cow-peas), cattle and some handicrafts, customers in Nigeria cannot afford the prices that producers from Niger command in their home market.

Senegal controls the retail price of rice at CFA 160 per kilo through a system of import control and tariffs. Gambian merchants import rice freely at CFA 54 per kilo and sell it retail at CFA 70 per kilo in Banjul. Senegalese consumers are pleased to pay a going rate of CFA 120 per kilo for smuggled Gambian rice; a good deal for themselves and the conveyor. In 1986-87 an estimated 65,000 tonnes of Gambian rice was re-exported to Senegal. As in Niger, there is a thriving cross-border trade between Senegal and Gambia in tomato-paste, textiles, sugar and vimto (a soft drink). All these goods are locally manufactured in Senegal and protected by tariffs. Gambia imports equivalent products for re-export.

As far as small businesses are concerned, the CFA factor tends to encourage commerce at the expense of manufacturing.

<u>Sahelians have little direct power of decision over the CFA issue.</u>

As long as the present situation perdures, it will be very difficult to develop manufacturing industry and to promote exports in the CFA countries, unless these countries manage to fine tune macro-economic and trade policy but that it is easier said than done.

Under present circumstances it is illogical of donor programs to seek to promote manufacturing, and not to assist traders. (Particularly because today's traders will become tomorrow's manufacturers if circumstances change).

h) The Banking System

The financial sector throughout the Sahel is in poor health. Chad, for example, is still operating under a banking moratorium since 1980 when all banks stopped operating due to civil strife under which all debts and deposits were frozen. Although two commercial banks have reopened since 1985, and some debts have been renegotiated, the development bank accounts are in shambles with many debts outstanding. Senegal has had no bank liquidity since the collapse of ONCAD, the governmental agricultural parastatal, with a loss of 90 billion shared between 12 banks, at least seven of which have since been technically bankrupt. In Mali, the development bank (BDM) has been unable to conduct ordinary banking transactions since November 1987; because it has no liquid assets no payment of BDM checks can be made to another bank. Mali's six other banks (5 commercial) are in better shape. Burkina Faso's two commercial banks are the only Sahelian banks with an excess of liquid funds due to the large amount of deposits by Burkinabe expatriates.

Owing to the general lack of liquidity, and the present economic situation, banks are only providing short term commercial credit. In Mali, for example, 82% of all active loans are of this nature. In Senegal the situation is sufficiently tight that such facilities are only being given to large companies. In Niger, on the other hand, although the development bank has a CFA 3,000 million deficit, the commercial banks are still able to provide facilities to large small businesses in the traditional trading sector. The BIAO in Maradi provides credit to merchants with a sales turnover in excess of CFA 5 million per month against easily saleable collateral, such as merchandise in shipment. In USAID's study of 558 artisans in Dakar, although 40 per cent of interviewees had bank accounts, less than 5 per cent had ever received credit facilities.

No banks in any country (except under some small donor funded guarantee schemes) are providing credit facilities to ordinary small businesses, nor want to. The banks reasons for not doing so are obvious: they are simply not set up to provide this kind of service. Even if a small business client is an old customer, the transaction cost for a bank to process a small loan or overdraft is the same for a big one, so smaller clients are excluded. Also, banks like to look at written accounts (which small businesses don't have) and, most of all, they need collateral. Unfortunately, even if small businesses can provide collateral it is not the type that banks like: second hand equipment is no substitute for a property deed in a town center. Bankers are also very well aware that small business and family are closely related and the risk of loans not being put to productive use are high. As banks have no outreach they are unable to monitor such investments (outreach is expensive, and bankers do not like to go into the hot sun in their suits). The banks experience with small business lending has yielded poor results. Senegalese banks assess the risk of non payment on small business credit facilities at between 18 to 45 per cent. And this is not a peculiarity of the Sahel: In Kenya, with solvent institutions, an encouraging environment, and a dynamic indigenous small enterprise sector, the commercial banks are well positioned to provide credit to small enterprises, but have yet to do so.

How the small business owners perceive banks is another issue. Banks are often referred to with a general air of mistrust. Interviewing small business men in Senegal that have received bank overdrafts, the author has never spoken to one that could explain how the bank calculated its interest or applied its charges. Loss of confidence has been caused by banks refusing to honor checks (USB in Senegal). In The Gambia, the Gambian Agricultural Development Bank which had taken deposits in the early 1980's ceased operating without refunding any of them. Perhaps the small business owners (and all other customers) biggest complaint is lack of service. In an article on Mouride entrepreneurs in Le Soleil, Senegal's daily newspaper, of August 19, 1989, Mr Mody Diagne, a large importer of manufactured goods from Sandaga market in Dakar said "All of us deplore the inaccessibility of the bankers. When we need them we have to wait, to request an audience, when a business deal cannot wait".

Instead of letters of credit most traditional merchants use cash. Senegalese change their CFA into dollars in Banjul in order to avoid delays at home passing through official channels, obtaining permission from the Treasury.

<u>In the past, donor agencies have tried various means of pushing the commercial banks into small business lending. Because the banks are not set up to serve this type of client, these efforts have failed. Donors must now stop trying to fit a square peg into a round hole, and seek to develop other structures to deliver such services.</u>

6. <u>Informal Organizations</u>

a) Attitudes Towards Money, Lending and Debt

Foreigners sent as managers to the Sahel are often shocked when, shortly after pay-day their staff come asking for advances on their salaries. All organizations end up having some kind of policy to providing advances, which is usually to disallow them. In his study of rural credit on Gambia, Parker Shipton sums up local attitudes towards money that are general throughout the region:

> "Cash in rural Africa is an odd commodity surrounded by ambivalent attitudes. Nothing ... is more sought after than money, and nothing is more quickly disposed of. Indeed, money is even seen as something to get rid of, something to turn into longer lasting forms..... Everyone needs it for something, particularly in the lean season from June to August; and one with money will usually have an infinite number of relatives or neighbors with pressing needs".

Borrowing money is often seen as an expedient way of resolving urgent problems, and is often gone into without a clear idea of how repayment is going to be made. Because most borrowing goes on in families, the terms and conditions are often blurred (or made deliberately blurred) so that loans may soon become gifts. In the family context, such gifts are often returned in kind.

In spite of the donor agencies enthusiasm for credit (a term that carries positive connotations of confidence, trust and helpfulness), this is only another way of saying debt. Credit and debt mean the same and only depend whether one takes a borrowers or a lenders viewpoint. Shipton suggests that rural people in Gambia have their own hierarchy of creditors, in which the newest, most distant, and least familiar lenders rank at the bottom. He suggests this should qualify the donor agencies judgements about "moral hazards" and "delinquency" where a borrower falls into arrears or default on an institutional loan.

Institutional lenders to farmers and small businesses have been so busy dictating the terms and uses of credit according to their policy objectives, that they have rarely bothered to consider how their "beneficiaries" perceive the situation. For example, evaluation reports write with dismay about loan funds being "siphoned-off" from the business to the family, when in the minds of most small business owners there is little differentiation made between one entity and the other. A similar error has been committed when donors have pushed long term credit at targeted sectors(such as farming), when in fact most people need to borrow in order to resolve a family emergency or to seize the opportunity of a short-term deal that could be in any sector (real people in the Sahel don't function in sectors).

Another reason for misuse of credit stems from government attitudes. Development banks and other government agencies have a history of easy lending terms and lax collection. Credit has often been given out, either in a general way to move money in order to satisfy government directives, or in a particular way at the suggestion of office superiors. It has been used primarily as a means of extending political patronage. For example, in Senegal's peanut basin three successive agricultural credit campaigns where loans were given for political reasons accumulated bad debts, until they were pardoned (more patronage).

Neither has rigorous credit management been promoted by governments treating banks like social services. Not only are governments keen to limit interest rates and bank fees, but they also make it difficult for banks to collect their debts. In Mali, for example, it is impossible for a bank to have a company declared bankrupt. In Niger, when a bank takes a debtor to court it must pay a tax in advance of 17 per cent of the sum it hopes to recover if judgement is in its favor.

Occasionally such attitudes are blamed on Islam, which condemns usury and the application of interest to loans. In fact Islam preaches that promises must be respected. It has also developed alternative ways of pricing investment capital through profit sharing. References to Islam are more generally used to explain reluctance to repay loans, but rarely to explain the readiness to borrow in the first place.

This is not to say that all borrowers are reluctant to pay. Many people borrowing from credit programs like to repay as soon as possible in order to be released from their obligations. Sometimes they repay even when holding onto the money for longer is infinitely more sensible in business terms. Being in debt is a situation that most honest individuals dislike.

Donor agencies wishing to lend to small business owners must be aware of the social and cultural constraints attached to money and borrowing. Successful lending (ie. when loans are productively used and paid back) involves consideration of family as well as business factors in loan appraisal and clear planning of loan activities. It also involves taking workable loan guarantees (by material security and/or by association of family members), and by following up non-payment of loans rigorously.

b) *Informal Credit and Savings*

Informal credit and savings mechanisms in the Sahel have their origins in the village and traditional life. They are a simple response to the needs of the population to have a means of putting aside some cash safely, accumulating capital, or borrowing in times of need. Although Europeans and Americans tend to think of savings and credit as two sides of the same coin, it is not clear that Sahelians share this view: because credit involves risk, and because the requirement for savings is security, mechanisms for credit and savings are often separated.

The most common form of savings mechanism is to turn cash into assets such as sheep or cows, land, buildings, jewellery, or equipment. The obvious advantage of such forms of savings is that they provide incremental benefits such as jobs, shelter, prestige, income or wealth concealment. All of these assets are lendable and at times will be lent.

Cash savings, an obviously less useable but handy resource, are kept either in a secure place (a safe, a hole in the ground, etc.) or with a trusted person, or Money Keeper. Money Keepers vary in type from place to place: According to a survey of 56 Money Keepers in rural Niger by Ohio State University in 1986, many are traders who have storage facilities and they offer deposit facilities, pawnbroking services and loans. They neither give nor charge interest. A study by Parker Shipton of rural savings in the Gambia, found moneykeepers there to be less professional. Again the depositor neither paid nor received interest, but nor was the money on-lent; indeed people expected to have same banknotes returned to them that they left behind originally. Money keepers serving merchants in the large permanent markets of Dakar and Kaolack, however require service payments from their depositors.

Tontines, known as osusu in Gambia, are rotating savings associations formed by friends, interest groups, colleagues at work or businessfolk. All members make fixed contributions of money at regular intervals (usually daily, weekly or monthly). Each time one member takes it all. Each member takes a turn until the cycle is completed. The tontine may then be dissolved, or recommence another cycle. The advantages of this system are that it is not intimidating (like a bank), it requires little or no paperwork, it requires no travel, it provides an occasion for social gatherings, and cheating is difficult. The disadvantages are, however, that a member cannot necessarily get money when he/she needs it, year-round tontines are not well suited to groups relying on seasonal income, the group depends heavily on all members continued participation and cannot easily accommodate members who come and go. Size of the tontine is important: if a group is too small then benefits are small, and social cohesion of a unit with few members is threatened. If a group is too large, however, the rotation is too infrequent, and communication in the group gets hard. The optimal size for a tontine is 5 to 10 people. In the Ohio State University survey in Niger, out of a sample of 56 tontines in

22 villages, some had only four members, others more than forty. The average member contribution ranged from CFA 100 to CFA 25,000.

Another informal capital raising mechanism takes the form of an organized party with food, drinks and dancing for which tickets are sold. This known as Azouma and Pari-Vente in Chad, and Colladera in Senegal. It is predominantly a women's activity and is the Sahelian equivalent of a coffee morning, but rather more entertaining.

These informal mechanisms for savings and capital accumulation, primarily geared to private and social ends,are not always well suited to small business needs. Merchants use the tontine system as a means of amassing capital and it is particularly well used by market women. But business is about seizing opportunities, and the tontine does not provide a flexible facility that provides financial resources on demand.

Most small businesses get their start-up capital from the business promoter's savings, with possible help from the family. For example, in USAID's study of 558 artisans in Dakar in 1989, more than 80 per cent of respondents said that their primary source of start-up financing was from personal savings. Most businesses then grow out of retained earnings. Despite the popular notion of moneylenders as primary sources of informal credit, they are rare in the Sahel which is partially the result of Islamic influence. On the other hand, the notion of joint investment in commercial ventures is well developed among groups such as the Mourides and Hausa. This is when merchants, seeing commercial opportunities but lacking capital seek financial help from their larger associates. According to Islamic law the profits of the venture are split three ways, one part to the lender, one part to the borrower, and one part to the intermediary.

The most important form of small business credit is in the form of goods purchased from wholesalers or other businesses on credit terms (supplier credit). According to a survey of 100 small businesses in Dakar, Thies and Ziguinchor over 40 per cent received goods on sixty-days credit, and in half of the cases the suppliers built in an "interest charge". Supplier credit is an important link between formal credit and the informal credit market. Large wholesalers borrowing from banks purchase merchandise which they then consign to a network of smaller retailers, who may in turn sell on to their customers on credit.

c) Support Group Associations and Secret Brotherhoods

The most conspicuous small business organizations in the Sahel are the Chambres de Commerce and the Chambres de Metiers. Unfortunately these have not developed into such service organizations as their French counterparts. They are staffed by civil servants and perceived by small business owners as "government" not "small business" organizations. Although they can serve an official function (e.g. allocation of government works contracts, registration, etc.) they do nothing to defend small business interests before government and other lobbies.

However there are other small business support groups, organized independently of government that are formal, traditional, or secret. These organizations provide their members with a variety of services such as advocacy before government, advice about regulations, contact with suppliers and markets, and possibly access to financing. At present the existence of these groups and how they work is poorly documented. Most of the following examples of such groups come from Senegal where they function relatively openly.

- Formal Organizations

These are associations that take out formal status, usually in order to have contact at the official level and to operate legally. An example of such an organization is the GES (Les Groupements Economiques Sénégalais) in Senegal. The GES was created in 1962 primarily to defend the interests of indigenous businessmen before the Senegalese government and the French dominated Comité National du Patronat. It now has 10,000 members belonging to eight federations that represent different activities (commerce, artisanat, brocanterie, etc.) and include a womans federation. The GES is now the most active small businessman's lobby in the country with representation on government committees. It also brings together modern and traditional businessmen, and provides a means whereby the illiterate and ill-informed have access to advice from educated and experienced colleagues about banks, legal rights and other matters. In the recent Senegal-Mauritania crisis, all the neighborhood stores (boutiques) formerly owned by the Mauritanians were looted. This caused severe losses to large suppliers of general provisions (Nestle, MTOA, etc.) who had been supplying goods on credit to the Mauritanians, and effectively dried up the pool of further credit; it also caused a social crisis because the population found itself suddenly cut off from its normal supply of retail provisions. The government requested the GES to intervene through the federation of wholesalers. The wholesalers used their merchandise to re-stock the boutiques, but this emptied the wholesaler's warehouses. They were unable to re-stock by getting credit from the illiquid banks, or merchandise on credit from the suppliers. As an alternative solution the wholesalers appealed to other members of the GES to contribute to a fund with the purpose of setting up a merchandise purchasing organization. At this appeal meeting alone, the wholesalers got financial commitments totalling CFA 30 million. The GES's function is not financial, but in this case it was able to mobilize group resources in order to resolve a particular problem.

Brotherhoods and Traditional Support Groups

Traditional support groups function in a similar way to ethnic support groups but are not necessarily constrained by ethnic ties. One such group are the Mourides of Senegal. Religious groups in Senegal are powerful and represent an alternative authority to government. The leaders of these groups (Marabouts) are strong defenders of their followers' interests. In the shade of such political protection and through the application of group solidarity and a strong moral code, the Mourides left their fields in the 1950's to do business in the city. Following humble beginnings in brocanterie (scrap dealing) and petty commerce, the Mourides went on to take over the Sandaga Market in Dakar and the transport sector. The Mourides are now competing heavily with the Lebanese in all sectors of commerce, and have been responsible for setting up the informal international supply network for manufactured consumer goods. The Mourides provide each other with goods and credit (on Islamic terms) on a completely informal basis. When faced with a situation beyond the power of the individual or group to resolve, mouride businessmen appeal to their source of spiritual and political support, the Marabout. For example, the former President Senghor had plans to displace Sandaga

Market which were later modified under pressure from the Marabouts. The Mouride merchants also have an official organization known as the Bureau Federal Touba-Sandaga, which is associated to the GES.

- Secret Societies

Other traditional groups are organized secretly. These groups may have religious, magical or criminal affiliations and are important in certain kinds of business activities. The cola trade, for example, between Ivory Coast and Senegal, which transits Mali, is said to facilitated by such secret groups. Cola shipments are passed on different stages of the voyage from trusted hands to trusted hands.

d) Difficulties For Donors of Working with Informal Organizations

There has been growing enthusiasm within donor agencies for working with informal organizations as future partners in development. This has been encouraged, for example, by the successes of informal advocacy groups in Peru, and by the findings of recent surveys of informal credit mechanisms which are proving to be significant channels of financial resources. Donors are interested in working with advocacy groups (e.g. a national association of informal public transport firms) as a means of promoting democracy and changing laws that presently marginalize small businesses. Donor agencies are interested in working with informal savings and credit mechanisms as a means of deposit mobilization, and as a means of putting resources into the hands of the mass of the population that does not have access to formal institutions. In both cases, donor concern for informal organizations is a response to the incapacity of the formal system to serve the population. This preoccupation has not yet, however, transformed into action. One of the main reasons for this is lack of information about the scope and workings of informal groups (see section 3). Some of the problems of working with informal organizations are as follows:

- They May be Difficult to Identify

"Informal" can imply "hidden". Informal organizations focused around kinship or social groups are "Family Affairs", and because of the importance of traditional and family links, associate individuals in a strong way. Whenever donors or governments have organized projects with a group focus these have rarely incorporated pre-existing structures (and have usually failed as a result). This has been either because projects have imposed their own group mechanisms (co-operatives, groupements d'interventions economiques, etc.) or because beneficiaries have found it much easier to form overnight groups to receive funds without the inconvenience of involving relatives. In the event of loan default, false groups have melted into the shadows leaving the family well clear.

- Problems of Compatibility

Informal organizations are easy to set up and administer, flexible (sometimes spontaneous), provide services that are not accessible or affordable through formal channels, are not constrained by regulations, and engage their members personally through family ties and other longstanding relationships. Donor programs by comparison have to date been full of administrative requirements, inflexible, impersonal, and usually short-term.

Problems of Adaptability

In their present state, informal organizations play an important but low-key role in the Sahelian economy. It is not certain that they will be able to adapt quickly to have a more important function.

As far as informal credit mechanisms are concerned, their relevance to small business development is still very unclear. Although informal mechanisms provide capital for personal (consumption) needs such as weddings and baptisms, present research findings tend to indicate that they are not significant providers of capital for business start-up and expansion (unlike in Cameroon where this is more often the case). Whether they can adopt innovations in procedures to provide better services to businesses without risking their own viability, or can work with small business promotion programs, are other issues.

Similar questions of adaptability can be raised about informal savings. For example,the World Bank Development Report,1989, quotes findings from the Ohio State University study of informal credit in Niger, where a sample of 56 tontines had a total size, as measured by member contributions per meeting, of about $72,000, and concludes: "This suggests a promising base for deposit mobilization in rural Niger". Does it ? The amount gathered by a tontine at a meeting is given directly to one member, who may then spend it immediately. Members of tontines are not investors or depositors in the normal sense because:

. They are not motivated to lend with the aim of earning interest, or getting any other kind of financial return,

. They make no calculation, as a business investor would, of risk and return.

Informal Organizations and Government

At present, informal financial organizations are considered to be arrangements between friends and have no status in law nor any official recognition in central bank regulations. There has been no precedent of donors working with unofficial organizations apart from village groups (and such activities have been closely monitored by the administration). Government initiatives to form small business associations have met with popular avoidance. For example, Thomas Sankara's Burkinabe government required certain informal businesses to join associations (e.g. taxis, beauty salons, etc.) but the population perceived this as controlling and oppressive.

Because it is unclear at present how donor programs and institutions can team-up with informal organizations, perhaps the most practical thing to do is to help them to work better. For example, persons wishing to start tontines can be taught simple procedures; or business organizations can be given access to legal advice.