CONSULTING ASSISTANCE ON ECONOMIC REFORM II

DISCUSSION PAPERS

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Sustaining Private Sector Development in Senegal: Strategic Considerations

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THE ECONOMIC REBOUND SINCE 1994

Although Senegal has historically been one of the slowest growing economies in Africa, the 1994 devaluation seems to have ushered in a new period of rapid growth. Although real GDP grew by only 2 percent in the first 12 months following the January 1994 devaluation, it accelerated to 4.8 percent in 1995 and 5.2 percent in 1996. This renewed growth has also been accompanied by reduced external and domestic imbalances, as the current account deficit has dropped, debt service payments are down and fiscal deficits have shrunken. In addition, the fears of some observers that the devaluation would contribute to sustained high inflation, seem not to have materialized. After a short spurt following the devaluation, the inflation rate as been falling steadily; by November 1996 it was under 1 percent per year.

Overall growth has led to impressive performance in key industrial and agricultural sectors. Industrial growth has been slightly under 10 percent per year during 1995 and 1996 with especially strong growth in construction and agro-industries. Agricultural growth, led by a rapid expansion of the fisheries sector and a somewhat slower response in the crop sector, has also been strong. Service sector growth has been more mixed, with slow growth in trade and transport, but much faster growth in other parts of the service sector — including business services, industrial maintenance, and hotels and restaurants.

THE PRIVATE SECTOR CONTRIBUTION TO RENEWED GROWTH

Despite the very good macroeconomic numbers of the past two years, most assessments of Senegalese private sector performance have been reserved — lukewarm at best. There is little doubt that the private sector has been the main motor of growth since 1994; state owned enterprises (SOEs) have a relatively minor presence in the most dynamic subsectors.

Nonetheless, dour views about private sector supply response prevail in most evaluations. An excellent analysis of the impact of the devaluation on Senegalese SMEs conducted by a team from the German Development Institute found little evidence of any improvement in the environment for SMEs in the two years following the devaluation. The authors of this study note such contributing factors to the poor response to the devaluation as a heavy dependence on imported inputs and a lack of active management strategies for switching locally produced inputs for foreign-sourced ones. They also state that they find little evidence of increased output beyond a few favored sectors or of increased employment. Strangely, however, they explain away their own survey data, which show very large increases in employment between 1992 and 1995, by noting that most of this increase consists mainly of temporary employees. The fact that the work force of most industrial SMEs in Senegal is largely made up of temporary employees does not seem to change their basic pessimism.

Several recent reviews of the impact of devaluation in agriculture provide additional illustrations of the generally “negativist” twist most analysts seem to give to private sector response. The authors of one generally excellent and thoughtful analysis, conclude that: "While in general producer price incentives have increased, following the CFA devaluation, farmer supply response remains modest (*mitigée*) in most countries and for most sectors in the Sahel...."[1] But the interesting point is that these studies emphasize factors such as the decline of fertilizer use in cotton and peanut cultivation and the adoption of denser seeding in peanuts, not the lack of a supply response.

The judgements of most of these studies seem unduly pessimistic. Some of this may be due to the fact that they came too soon: The devaluation of January 1994 was followed by a year of continuing uncertainty, slow adjustment and moderate growth in most sectors. The growth that began in 1995 continued and even accelerated in many sectors in 1996. Most impressively, however, investment statistics confirm the view that there was a fundamental improvement in the private sector outlook after 1994. The largest annual percentage increase in investment between 1990 and 1994 was a mere 3.5 percent in 1991. In contrast, investment grew by almost three times that rate in 1995 and again over two times as fast in 1996. More importantly, businesses have led the investment surge with double digit growth over the past two years after five years of stagnating investment.

The different segments of the private sector have participated in this growth to varying degrees. **Large enterprises** in the industrial sector have definitely responded to devaluation and are increasing their output. Major industrial firms such as ICS (fertilizer and chemicals) and SOCOCIM (cement) are operating at full capacity and reportedly planning new additions. Colgate Palmolive also envisions significant new investments aimed at increasing its capacity to service regional markets and is developing new products. The natural gas distribution sector in which Shell and Mobil have major parts is also reported to be doing exceptionally well. **SMEs** seem to have been the major sources of growth in certain sectors. This is almost certainly the case in the construction sector where AGETIP estimates that over 250 viable going concerns in the small construction and maintenance sectors have arisen to respond to opportunities in public works contracting and that as many as 2,000 firms and individual enterprises have been created due to the growing practice of contracting out construction work. A similar growth in business services, including maintenance, consulting, temporary manpower contracting, printing and publishing also seems to be under way. The scale of the private sector response in the **informal sector** is harder to judge. Given the predominance of agriculturally based activities in the informal sector, it is likely that informal sector output is highly correlated with agricultural output and revenues. While, on the whole, the agricultural sector has done well over the last two years, continuing institutional problems in such key areas as the peanut subsector may be holding back informal sector activity in such areas as peanut production, fertilizer distribution, seed production and equipment manufacturing.

[1] Josué Dioné, J. Tefft, M. Yade, B. Kanté and Anne Chohin, "Ajustement Structurel, Politiques Economiques et Sécurité Alimentaire au Sahel," Contribution au Forum International du 20éme Anniversaire de l'Institut du Sahel, Décembre, 1996.

SOURCES OF THE TURNAROUND

There are three potential explanations for the renewed growth that Senegal has enjoyed in 1995 and 1996: (1) the extensive economic policy reforms of recent years, including (especially) the devaluation of the CFA franc in January of that year, may have unleashed a new growth dynamic; (2) exogenous factors may have come into play, notably favorable changes in terms of trade or favorable rainfall patterns; and/or (3) injections of greater volumes of foreign assistance may have stimulated economic activity. Each of these is considered below, in turn.

The effect of policy reforms is clearly an important factor in explaining the new growth. The devaluation especially has contributed to a more efficient utilization of Senegal's economic resources. In addition, the Government has undertaken an impressive range of structural reforms aimed at dismantling critical components of the system of protection and administered markets that has enveloped much of the Senegalese private sector. Of particular note are the reforms undertaken under the World Bank sponsored Private Sector Adjustment and Competitiveness Project (PASCO) which have: eliminated customs reference prices and import authorizations; attacked the *conventions spéciales* system, by which Government conferred extraordinary protection from competition, subsidies and tax exemptions to individual enterprises; abandoned price fixing on numerous products; and sought to make it easier for employers to lay off workers during economic slowdowns.

Of all these reform measures, only the devaluation seems to have had a substantial effect in stimulating growth. The prices of most important tradeables did become more favorable. The exchange rate change sharply reduced the profitability of smuggling, and made fraud harder, thereby providing genuine protection for local producers. The so-called "structural" reforms (liberalized markets and institutional changes) had spotty effects, mainly because they were only partially implemented. Reference prices and other forms of special import protection persist, although in a different form. Price controls also persist, indirectly; price determination in major commodities remains non-transparent in any event. The importance of the labor market reforms was exaggerated by the reformers: employers long ago adapted to these rigid market institutions by subcontracting many operations or by using temporary workers.

As for the contribution of exogenous factors in Senegal's growth, rainfall data for the three years 1994-1996 are not at hand, so it is not possible to make even broad judgements about whether unusually good rains might account for some of the increased agricultural production. The evidence on commodity prices, the other main exogenous determinant of growth in Senegal, is also ambiguous. Comparisons of prices of cotton, peanuts and phosphates between 1991-1993 and 1994-1996, shows a mixed pattern. Cotton and peanut oil prices were about 30 percent higher in 1994-1996 than in 1991-1993. Unshelled groundnuts and rock phosphates were some 10 percent lower in the later period. Interpretation is uncertain. Senegal exports unshelled groundnuts, and imports other vegetable oils for local consumption. Terms of trade effects are thus ambiguous. Also, since only a part of cotton and groundnut price rises were passed through to farmers, the impact on producer incentives was muted, though the two *filières* benefitted. On balance, it seems unlikely that external price movements played a significant role in driving Senegalese growth since 1994.

Turning to the impact of aid flows, it is hard to come to any firm conclusions due to a general lack of data. Available statistics on official development assistance (ODA) show a significant rise in

1994 from previous levels, which may be significant, but no further data is available for 1995 or 1996. Debt relief may also have played a role in reducing macroeconomic pressures on the Senegalese economy. On the whole, however, while the affect of aid has been positive, it is unlikely that its magnitude has been very great.

REMAINING CONSTRAINTS TO PRIVATE SECTOR DEVELOPMENT

Whatever the sources of recent growth, and however the past responsiveness of the private sector is assessed, it is essential to understand the nature of the constraints that continue to hold back private initiative. Loosening these constraints should be the objective of Senegalese public policies (and foreign aid programs) aimed at making the private sector a more powerful engine of growth.

Many of the remaining constraints on the private sector operate at the enterprise level. Others are embedded in the business environment and still others are related to the policy and administrative environments. The intra-enterprise constraints, notably for SMEs, are well-diagnosed in other reports and are not a main focus of this study. Rather, our emphasis here is on the policy and administrative constraints — the "business climate." These continue to be of great weight and are largely responsible for the perception that Senegal is not yet a good place to do business. Four factors feed this perception: (1) skepticism about the GOS commitment to liberalization; (2) the lack of transparency in decision-making and implementation coupled with a generalized suspicion that the playing field is uneven; (3) the persistence of administrative weaknesses and harassment; and (4) the weakness of private sector support institutions. Each of these is considered below.

Skepticism about Government Commitment to Market Reform

Despite the impressive list of reforms undertaken in the PASCO, much skepticism remains about the Government's commitment to market reform. Mixed signals are still being sent in several critical areas. These include:

> **Intervention in domestic markets**. New competition legislation passed as part of the PASCO reform process still authorizes the imposition of administrative price controls for sensitive commodities such as rice, charcoal, petrol and establishes procedures for the administrative review of market prices for wheat and cereal flour, natural gas, bread and pharmaceuticals. The February 1997 *arrêté* fixing margins for rice serves notice that there is real bite in these provisions. Even in sectors in which price controls are supposed to have been unambiguously eliminated, ambiguity surrounds price determination. Ex-factory cement prices, for instance seem to be resting at the old controlled levels, despite skyrocketing retail prices and widespread reports of shortages. Prices for major agricultural commodities such as peanuts and tomatoes are subject to "negotiations" between industry groups with major input from public actors. The government has also recently promulgated a new *arrêté* that prevents manufacturers from selling directly to retailers and consumers and enforces a two-stage distinction between "wholesalers" and "retailers" and prohibits wholesalers form selling to consumers.

> **Limited exposure to external competition**. Despite the removal of non-tariff barriers and the elimination and renegotiations of several *conventions spéciales* that granted high levels of protection to specific firms, it is unlikely that import competition is any more vigorous now than

it was before 1994. In several cases, notably for cement and fertilizer, the devaluation seems to have helped domestic producers become competitive with imports. A number of other less competitive enterprises, however, still require extra protection from imports — which has been granted through new tariff surcharges. Thus once the added protection provided by the changed CFA parity is combined with the new tariff surcharges, it is not at all clear that there has been any real lowering in the overall level of protection.

Policy instability: changes in the operation of the Dakar Free Zone. The Government has decided to undertake a general revision of the preferential incentive regime governing firms in the Dakar Free Zone — the *Zone Franche Industrielle de Dakar*. In the new regime, enterprises will: lose certain tax exemptions; face a higher export sales threshold in order to benefit from the new preferential incentive regime; be dependent upon Senegalese judicial authorities for adjudication of disputes instead of outside arbitration; have their preferential status reviewed on an annual basis; and be required to deal directly with different Ministries and agencies regarding import and export operations, rather than with the centralized "one stop shop" in the Free Zone. Taken as a whole, these measures represent a significant step backwards in the investment climate and are not likely to help attract needed foreign investment. They also contribute to doubts about the Government's ability to maintain a consistent economic policy.

Lack of Transparency and the Perception That the Playing Field Is Uneven

In addition to the general skepticism about the Government's commitment to market reform, there is very widespread belief that, in Senegal, even-handedness does not prevail and that economic policies are slanted in favor of one or another individual or group. This has serious consequences for market efficiency and for investment. Concrete manifestations of this lack of a "level playing field" include:

Uncertain trade reform implementation. Although the use of reference prices (*valeur mercuriales*) is supposed to have disappeared from the scene following implementation of the PASCO reforms, Senegalese importers vigorously state that they continue to exist for products such as sugar, plastic bags, tomato paste and wheat flour. In part there may be some misunderstanding, since the renegotiations of the *conventions spéciales* afforded to the producers of these four products do offer special instruments of protection that many seem to be confusing with the old reference price system. In the case of sugar, the new terms of the sugar refinery's (CSS) special agreement do, in fact, duplicate one feature of the pre-reform system: it establishes a "*prix de reference*" that becomes the accepted tariff base. But it also imposes a special duty equal to the difference between the invoice price and the "*prix de reference*." For tomato paste, wheat flour and plastic bags, the renegotiated protection mechanisms are tariff "*surtaxe*s," which are additional tariff percentages points that are added to existing tariff rate and are supposed to be applied on the basis of the invoice price. In any case, these products continue to be subject to import taxes that either function like reference prices (sugar), or are understandably confused with reference prices (tomato paste, plastic bags and wheat flour). It is not clear whether the confusion in the latter case arises because traders mix up *surtaxes* and reference prices, or because customs officials apply the *surtaxes* in a manner that duplicates reference prices (by imposing duties equal to the difference between invoice prices and some administratively determined price level). Traders assert that, in practice, customs officials continue to apply reference price duty mechanisms for all of the above products and for many others as well — mainly to protect particular interests.

Biases in favor of established agro-industrial enterprises. Senegal's policies tend to favor processing industries over importers, producers and new entrants. The Companies engaged in sugar refining (CSS), tomato paste processing (SOCAS) and peanut oil refining (SONACOS) all enjoy high levels of protection in finished goods markets and low tariffs on imported semi-processed inputs. When this system of tariff preferences is combined with other restraints on market entry, such as the requirement that new sugar refineries establish cane plantations and the important role of the publicly owned SONACOS in establishing official prices for the peanut campaign, the result is that these firms continue to enjoy market dominance and high degrees of protection from both importers and potential industrial rivals. It is important to note that although SONACOS has been targeted for privatization for several years, there has been little public discussion of the wisdom of continuing the tariff preferences that generate much of its cash flow.

Administrative Harassment and Judicial System Uncertainties

Another area of problems concerns the persistence of administrative harassment and Senegal's generally weak judicial system. Private sector actors complain vehemently about the system of tax administration, the slow treatment of price control dossiers at the Ministry of Commerce, and of general harassment by the Economic Police. Examples of administrative disruption of private sector activity are legion. Examples drawn from customs administration and labor market regulations are given below.

Harassment in customs administrations. Customs have long been a rich source of entrepreneurial headaches. It is clear that the complexity of the customs system, the heavy taxes levied and the numerous forms and declarations that have to be made are negative influences on the business climate and divert management energies from more productive tasks. For example, the "temporary admission" system for imported inputs in manufactured exports requires detailed product by product studies by Customs authorities that can take months or even years. The system also requires the maintenance of separate stocks and specifies that they be used immediately. Failure to adhere to these exacting requirements occasions heavy fines. Other problems persist such as a proliferation of small fees, costly controls on VAT-exempt exports, restrictions on the free movement of goods and unjustified overtime rate charges for customs officials' time.

Inadequate judicial framework for labor relations. The Senegalese legal system grants a very high degree of job protection to permanent employees. This has been recognized as a major factor contributing to formal sector labor market inflexibility. Although recent reforms in labor laws have granted employers new rights to lay off employees for economic reasons, there has been little practical improvement in labor market flexibility. The reason for these continuing difficulties lie in the weak judicial framework for resolving labor disputes. Employers have little confidence in the judicial system as an impartial or predictable vehicle for resolving labor disputes and they will go to great lengths to avoid litigation — mainly by not hiring permanent employees. Thus the formal sector labor force remains heavily skewed to temporary employees.

Weak Private Sector Support Institutions

A host of institutions exist to provide support to businesses in Senegal. Some are public institutions, often supported with donor funding; others are outright donor supported projects. Most of these private sector support institutions exist to focus aid on the SME sector, which is generally acknowledge to possess great growth potential, but which also suffers from severe internal and external institutional weaknesses.

Unfortunately the universe of existing support institutions seems to function very poorly. Almost everybody we talked to deplored the current situation, giving failing marks to virtually all the institutions in terms of their record in meeting private sector (SME) needs. Private sector operators express a general skepticism in the face of what they view as a bewildering institutional stew of organizations that gives them little or no sustenance. The major failings of these institutions are:

- They are so numerous and have so many overlapping mandates that potential clients are distracted, and resources wasted;
- Many are arms of government more than servants of the private sector;
- They are inadequately staffed, have insufficient resources and provide poor service; and
- They have serious internal management weaknesses.

In addition to the weakness of these business support institutions, the Senegalese private sector remains handicapped by a shortage of financial institutions that are capable of serving the SME and informal sectors. In fact, business owners complain loudly about a "lack of credit" and the inflexibility of the Senegalese banks in enforcing onerous collateral requirements for any credit they extend. These problems persist despite the proliferation of donor supported lines of credit and guarantee funds that have been set up to channel credit to SMEs and microenterprises.

The lack of access to finance among small enterprises and appears to be grounded less in the supply of funds and refinancing capacity of lenders, which appear to be adequately addressed by existing vehicles, than in a lack of appropriate institutions that are able to serve as intermediaries between these sources of finance and end-use borrowers. The credit available through all the donor-supported financial facilities is, for the most part, actually disbursed through Senegalese banks and NGOs. Unfortunately, few Senegalese banks have personnel with experience in SME credit analysis or an organizational structure of the type that would make it profitable to service an SME clientele — much less microenterprises. Consequently, they have little enthusiasm for using donor-supported credit lines or guarantee funds to expand their business in this direction.

The universe of Senegalese financial NGOs is also fairly undeveloped. A recent survey of savings and credit schemes cited in a recent World Bank study found 30 active programs, but only three that any significant capacity to make large volumes of loans or who had prospects for achieving financial sustainability. And of those three, only one had demonstrated a capacity to successfully intermediate credit relationships between outside sources of finance and small and microbusinesses. Thus, neither banks nor NGOs seem able to respond to the current financial needs of the SME or microenterprise sectors.

Another striking feature of the institutional environment surrounding the Senegalese private sector is the lack of strong business and professional organizations. In fact, the proliferation of GOS and donor-supported private sector support institutions and programs is, in many respects, a symptom of the underlying incapacity of Senegalese business and professional associations to provide useful assistance to their members in anything beyond lobbying directed at the public sector.

In part, the development of business associations is hampered by internal divisions and rivalries within the private sector employer federations. At this umbrella federation level, the Senegalese business world is split into rival factions dominated by the Conseil National du Patronat du Sénégal (CNP) and the Confédération Nationale des Employeurs du Sénégal (CNES), each of which regroup competing sectoral professional organizations regrouping businesses in the formal sector. In addition, to the above formal sector organizations, the recent emergence of UNACOIS as a business organization representing informal sector traders and microentrepreneurs, has signaled the creation of another major force which with divergent interests from the two major federations. These federations, at the request of their member professional organizations take major roles in lobbying the government on policy issues, representing their membership in collective bargaining negotiations and discussions on regulatory matters with public institutions and organizing general seminars and training events. In general, however, they lack both the human and financial resources to offer a sustained program of member services.

Within the formal sector, most concrete firm-level support functions tend to be located at the next level below the federations, which is occupied by sectoral professional organizations (usually called by the generic term *syndicats professionnels*). Unfortunately, these *syndicats* are, in general, resource-poor organizations with even less money, institutional capacity and organizational vision to engage in anything other than ad hoc interventions on isolated occasions where there is widespread consensus among their members on a particular subject.

PROGRAM IDEAS FOR USAID CONSIDERATION

The study concludes with a consideration of where USAID might most effectively contribute to faster private sector growth. Before presenting some possible options, however, it is important to note several guidelines that were used in formulating them:

First, though all the suggested programs are linked to the constraints identified, not all the constraints are directly addressed. For example, much weight is given in earlier analysis to the ambiguities and slippages in implementation of the policy reforms since 1994. But we do not believe that USAID should move toward further conditioned policy grants aimed at improving implementation. In our view, this is best done by the World Bank, if it is to be done at all, which is debatable. We suggest instead a longer-term approach to attack this constraint — research and public education in market economics.

Second, our proposals reflect the expressed needs of Senegalese private operators, as determined by our interviews, and by review of related documents — reports of workshops, for example. USAID/Senegal is taking very seriously the new prescription in aid circles — that donors must listen much more to local views and frame their assistance strategies less on their own preconceptions and agendas. Therefore, the six recommended program ideas presented below are based on proposals put forward to us by Senegalese active in the private sector. Some of these have been reshaped of course in the light of our experience elsewhere.

Third, we obviously do not include all the proposals and suggestions made by local actors. There are simply too many such proposals in circulation. Some do not seem appropriate for Senegal. Others, that may be generally attractive, do not seem appropriate for USAID.

Given these general principles, we have developed six possible areas of programmatic interventions that USAID might wish to consider. These are program ideas, not developed program proposals. We have only identified areas of possible action we think merit further consideration and development should USAID decide to include a private sector component in its new five year programming exercise. These specific options are detailed below.

1. Create New Opportunities for Senegalese Entrepreneurs

Throughout the industrial and developing world one of the most striking trends in recent years is the disaggregation of production and service-providing organizations — the creation of smaller units, use of consultants, subcontracting of peripheral activities. This trend is very much in line with Senegal's needs; its supply of entrepreneurial energy and talents is greater than effective demand for them.

One set of reasons for sluggish growth of demand for these energies is the large role of government as provider of services and the fact that government (like larger scale private Senegalese companies) does in-house (*en régie*) what could and should be divested or contracted-out — maintenance and repair, data processing, research and studies, metering, billing, and many non-core activities.

Change is already under way. The Ministry of Public Works has sold off almost all most of its road maintenance equipment, and what it used to do *en régie* is now contracted out to private construction/building/road maintenance operators, some 2,000 who are now said to exist. The Commune of Dakar contracts for waste removal. The shrinkage and quasi-bankruptcy of Dakar-Marine has released fresh talent to the private sector. Many private sector firms now contract-out much of their maintenance and repair.

But much remains to be done, and there is great potential for cost-reduction, employment-increases and harnessing of entrepreneurship. Various instruments have been suggested.

A studies and dialogue-based approach, for the public sector in particular. This would involve creation of a Public Sector Disaggregation (or Subcontracting) Fund that would finance feasibility studies to assess specific subcontracting opportunities, public or private. It would organize consultative committees for presentation of options, costs, benefits. (The approach is very much in line with U.S. "Reinventing Government" ideas.) It might also support Private Sector Foundation programs to identify weaknesses in service provider capacities and seek remedies. It could help strengthen marketing capacities of these providers.

A Business Links Program, such as exists in Zimbabwe, South Africa and other countries. A private sector organization is given responsibility for designing and implementing a program of studies and public education aimed at encouraging subcontracting and other links between larger and smaller entities. "Factory process audits" are done, to identify areas where enterprises can outsource. "Buyer Open Houses" bring groups of potential suppliers to the premises of potential buyers. "Supplier Capacity

Audits" analyze the capacity of an enterprise to supply a particular good or service and propose remedies for weaknesses.

2. Support Public Education and Research in Market Economics

A great many of our interlocutors emphasized the **need for better public understanding of what liberalization and market-oriented policies mean**. Some especially knowledgeable observers pointed out that genuine acceptance of the reforms of recent years has not yet penetrated beyond the top political and technical strata, and emphasized that this is a major factor in backsliding and hesitation. It is also clear from what is known about the decision process within government, and from economics-related articles in the press that policy analyses with a good basis in market economics are often lacking. Misconceptions about how markets work are widespread, among civil servants and among intellectuals. Such misconceptions often underlie injudicious public policies.

Many different kinds of programs are mentioned to address these problems. Short run efforts should go to **expand the number and content of seminars and lecture series** addressing public policy issues from economic perspectives. Civil servants and journalists should be special targets of such educational activities.

A more basic attack requires institutional strengthening, or more precisely, institutional innovation. Presently, there are few places in Senegal where public policy is the subject of serious research and debate. Yet without such institutions it is hard to see how the analytic level of policy debate can be raised, and even harder to see how deeply held dirigiste convictions can confronted. The challenge calls for something like the **establishment of an independent economic policy research and education institution** (perhaps an "Institute of Market Economics," which would be a permanent source of policy analysis and public education. The development of such an institution is compatible with possible future USAID plans to move to a Foundation mode; the creation of an autonomous Institute of Market Economics could begin right away and be sustained later whatever the form the American aid presence takes.

3. Increase the Capacity of SMEs and Service Providers Targeting the SME Sector

SMEs active in agricultural product processing, tourism, industrial services, construction and fishing are among the fastest growing segments of the Senegalese private sector. However, SMEs remain in may ways, the least well served and understood sector of the Senegalese economy. Larger firms have a high enough profile to demand attention from authorities and find a warmer welcome among Senegalese banks. Microenterprises are the target of a range of NGO and donor support projects. But SMEs remain in many ways the "odd man out." Helping SMEs to achieve sustainable growth and to move into areas of the economy that are vacated by public sector providers should involve two different sets of possible interventions: (1) those that are designed at helping SMEs themselves overcome specific firm-level obstacles and (2) those that are designed to overcome obstacles related to the poor institutional support environment for SMEs.

Suggestions for possible interventions under both these headings are described below.

For SMEs:

Enterprise heads, business school teachers and specialized trainers suggest three kinds of programs that would target SME entrepreneurs and their workers:

Entrepreneurship training, along the lines of the courses given under previous USAID financing. The need for entrepreneurship training is often suggested as a possible response to what many observers have diagnosed as a general lack of an entrepreneurial culture in Senegal. This cultural bias, which often manifests itself in a preference for trade and rapid turnover activities to those that require sustained investment and management expertise, is also accentuated by the fact that many potential SME entrepreneurs are coming from past employment in the public or state enterprise sectors, and have not had a chance to develop the necessary reflexes and tools of successful entrepreneurs. Actual training modules might consist of brief (two week) workshops, bringing together established and aspiring entrepreneurs seeking to improve their managerial capacities.

Another possibility would be to expand the content and increase in number of **management workshops** oriented at transferring basic business management techniques. These workshops would be much less involved than the entrepreneurship training suggested above and would be targeted much less selectively. Similar workshops are now being given by the International Labour Office to generally good reviews.

Training for higher levels of skilled workers, including foremen/supervisors. Technical training in such areas as metalworking, electrical systems repair, and construction is also reported to be a major need by many SMEs — especially at the foreman or shop-floor supervisor level. Various industrial concerns report that, while Senegal seems well supplied in unskilled and skilled workers, there is a real shortage of technicians with the right combination of technical skills, education and organizational experience working in a professional setting to be able to operate effectively as workgroup leaders.

For the same target group, **internships in larger local enterprises, and possibly abroad**. Many SME managers say that their more skilled technical workers could benefit greatly from internships in larger structures to familiarize themselves with practical management techniques, new equipment and materials.

For Consultants and Service Providers:

For the burgeoning consultant community, **three related needs** are mentioned most frequently: development of greater **professionalism** among consultants, more extensive **contacts** with international consulting firms and **greater access** to international contracts. Two specific types of programs are suggested.

A strong effort to develop internship arrangements, domestic and foreign. Those Senegalese firms that have reached a certain stage of sophistication should be encouraged to take on new graduates and other aspiring consultants. Practical ways of doing this would seek to focus on fostering a dialogue between consulting firms and educational institutions, offering assistance in working out details of internship arrangements, providing off-site formal training and, perhaps, by providing an appropriate level of subsidization. International management and accounting firms that are located in Senegal and whose staff is almost entirely Senegalese are particularly appropriate targets.

More experienced and advanced consultants want to know how large and successful consulting firms work in other countries. **Short internships and contact-enlarging visits** are said to be potentially high-yielding investments.

Greater efforts should be made to persuade donors that **joint ventures and/or subcontracts between international and local consulting firms**, is essential for local capacity building. Instruments for doing this are not clearly spelled out. But at a minimum, donors should make an effort to create teams of local and international consultants whenever possible.

4. Promote the Development of Appropriate Financial Intermediaries for SMEs and Microenterprises

Given the general lack of appropriate intermediary institutions for channeling credit and financial services to SMEs and microenterprises, interventions to alleviate financial constraints on private sector development should focus on this particular institutional problem. Two specific suggestions may be considered:

It may be possible **to replicate the USAID-supported ACEP experience** which has produced an institution that represents the current "best practice" in the field of microenterprise lending in Senegal. Observers and ACEP staff themselves agree that ACEP and similar projects cannot come close to meeting the demand for micro-loans or making full use of the available donor lines of credit that are available to on-lend to microenterprises.

In the area of SME finance, there is a slightly larger universe of lenders than is the case for micro-lending. Among the major Senegalese banks, the CBAO and SGBS both express an interest in developing a clientele of SME borrowers. Specialized institutions also exist for venture capital and leasing. USAID actions in this area should focus on **increasing capacity of consultants (as described above) to bring businesses and lenders together and encouraging the development of new specialized financial institutions that have appropriate structures for reaching out to the SME sector**. Specific approaches to encouraging the development of SME-focused financial institutions could include: training financial institution personnel in SME business lending; sponsoring internships with U.S. or European venture capital, factoring, export insurance firms; and closely monitoring BCEAO policies on interest rates and financial supervision to make sure that financial sector regulations (particularly usury laws) do not constitute a barrier to the creation of new financial instruments that could serve SMEs.

5. Improve Institutional Support for Business and Professional Associations

Given the rivalries and differing constituencies of the different Senegalese business groups, the question of strengthening business associations must be approached with some delicacy. Our investigations to date do not permit us to make definitive judgements about where support for Senegalese business associations should be targeted or exactly what it should contain. However two possible preliminary suggestions may warrant further investigation.

The first of these would be a **program to strengthen the firm-level assistance programs** and general institutional capacities of the sector specific professional associations (*syndicats professionels*) or independent *ad hoc* business associations. These organizations tend to be closer to their members than the federations and are the natural vehicle for actions that seek to effect the results of individual enterprise. Specific actions such as helping them develop member services, savings and credit unions, internal organizational capacity and a strategic vision for promotion of their members could help them make the transition to becoming sustainable institutions. USAID could help this process by: providing technical assistance to professional associations to help them with internal organization and financial sustainability issues; facilitating international linkages with U.S. and international markets and organizations; providing funds for Senegalese professional associations to sponsor studies; and co-financing training events.

Helping professional organizations by providing a fund to allow them to design and contract for policy studies is another possible area for USAID support. While the World Bank Private Sector Foundation and GRCC already intervene to some degree by cofinancing studies suggested by private sector groups, these organizations limit their support to commissioning stand-alone studies. Business associations also need assistance in developing their own in-house expertise to the point where they can participate in the design of research programs and become educated sponsors and consumers of policy analysis of enabling environment issues. USAID financing to support such studies could help business associations become more active players in important policy debates surrounding market liberalization and specific obstacles to private sector development. This could add an important new element to the policy debate, as professional organizations that support some aspects of liberalization (such as UNACOIS on trade liberalization) have not yet become active participants in the technical policy debate with donors and the GOS.

6. Strengthen Training Systems in Commercial Law

Virtually all private sector operators mention that the Senegalese judicial system is ill-suited to handling commercial, labor and contractual disputes. In part, these problems stem from a severe shortage of judges. Judicial experts estimate that 1,000 judges are needed in Senegal while only about 200 are in court as of early 1997. Furthermore, few of these have sufficient training in commercial law. Because of these problems, resolving issues like outstanding commercial claims often takes years.

There is a definite need for more judges with stronger backgrounds in commercial law. USAID may wish to consider **supporting training for judges in commercial law**. One possible line of activity to consider is organizing seminars or practicums where judges could work with private sector lawyers to understand the practical effects of judicial decisions on private firms. These would bring judges, entrepreneurs and lawyers together to examine case material drawn form real decisions. Such interventions would be designed to help judges develop an appreciation for the economic and commercial aspects of cases. A comparative legal aspect could also be introduced by sponsoring exchanges between U.S. lawyers and judges. Seminars could either be added to the regular program of the Judicial Training Center or added as an element of continuing education. This program might also be complemented with a grant to provide for an upgrade of physical resources available to judges.

CHAPTER ONE

ECONOMIC REBOUND SINCE 1994

The Senegalese economy was for decades one of the slowest growing in Africa. From the mid-seventies to the mid-eighties the economy grew more slowly (2.3 percent a year) than did population, leading to a decline in per capita income. Good weather and better commodity prices, along with some policy reforms, led to improvement in the late 1980s; GDP rose 3.7 percent annually between 1985 and 1989. But the early 1990s brought a serious recession, as the GDP and export figures in Table 1 show. Export earnings, which had grown by 6 percent a year between 1985 and 1989, fell by about 3.5 percent a year between 1991 and 1993. Industrial production in 1991 was 15 percent below its 1988 level and showed little buoyancy in the ensuing two years.

External and domestic imbalances grew alarmingly during these years. Debt service payments absorbed growing shares of available resources, despite high aid inflows. Fiscal pressures intensified, as reflected in persistent budget deficits and soaring arrears.

Since the watershed 1994 devaluation of the CFA franc, however, much progress has been achieved and the economy is once again exhibiting signs of strength. This turnaround is clearly evident in Table 1, on the next page.

The standard macroeconomic indicators are eloquent.

Acceleration of real GDP growth. In 1995 and 1996 real GDP growth was higher than at any other time during the decade. The 5.2 percent growth rate achieved in 1996 is the highest rate of growth in over 10 years. These two years of solid growth indicate a sharp break with the period of low growth that persisted from 1991 to 1994.

Renewed export growth. Steady, if unspectacular, growth in export values has been achieved in the post devaluation period. Nominal CFA export earnings more than doubled in 1994 although most of this gain was a mechanical translation of the 100 percent devaluation. In dollar terms, the gains were of course more modest, although still significant in comparison to the previous three years. Foreign exchange earnings increased at a faster rate 1995, and continuing strong earnings growth in 1996 contributed to a substantial reduction in the current account deficit relative to GDP. A significant reversal of the earlier three year period of stagnating export earnings thus took place in the three years following the devaluation.

Improved fiscal balance. Senegal has received high marks for its recent fiscal discipline. Expenditure growth has been modest while revenue growth in 1994 and 1995 was strong due to improved tax collection efforts. These efforts have allowed Senegal to cut its fiscal deficit as percentage of GDP by more than one-half between 1993 and 1996. The state was also able to pay off all its accumulated arrears by the end of 1995.

Low inflation. Contrary to some predictions, the January 1994 devaluation did not lead to an inflationary spiral, as Table 1 indicates. After a brief upsurge in prices immediately following the devaluation, the rate of inflation has been trending back to its relatively modest pre-devaluation levels.

TABLE 1
MACROECONOMIC INDICATORS, 1990-1996

	1990	1991	1992	1993	1994	1995	1996
Real GDP Growth (a)	4.5%	-0.7%	2.8%	-2.1%	2.0%	4.8%	5.2%
Per Capita GDP, $US (b)	710	720	780	750	479	586	602
Export Value Growth (nominal CFA)	0.3%	-2.5%	-3.8%	-3.5%	111.6%	7.7%	5.7%
Export Value Growth (nominal US$) (c)	17.6%	-6.0%	2.3%	-9.6%	7.9%	19.8%	3.0%
Inflation (d)	0.3%	-1.8%	-0.1%	-0.7%	32.1%	8.1%	3.0%
Budget Deficit/GDP (e)	-1.4%	2.4%	-3.6%	-4.0%	-5.7%	-3.2%	-1.9%
Current Account Deficit/GDP (f)	-8.9%	-9.4%	-9.2%	-10.3%	-9.3%	-8.0%	-8.0%
Debt Service As Percent of Exports (g)	21%	21%	14%	8%	15%	17%	19%
Aid Inflows ($ M) (h)	795	581	680	518	645	N/A	N/A

Sources: see notes below and on following page.
(a) Based on Ministère de l'Economie et des Finances, Direction de Statistique et de la Prévision (MEF/DSP) figures for real GDP. Growth rates shown are consistent with IMF figures. 1996 figures are estimates available as of April 1997.
(b) Figures from 1990-1993 from Qualmann, et al (1996). Figures from 1994-1996 based on nominal CFA GDP figures from MEF/DSP translated at annual average $US/CFA exchange rates from IMF, *International Financial Statistics*. The sharp drop in 1994 per capita income reflects the impact of the devaluation on incomes measured in foreign exchange.
(c) Based on MEF/DSP figures on exports in nominal CFA translated at $US/CFA exchange rate from IMF, International Financial Statistics.
(d) Annual change in Consumer Price Index from IMF figures.
(e) Figures from IMF, Enhanced Structural Adjustment Facility (ESAF), Policy Framework Paper (PFP), December 24, 1996. Budget deficit figures are on a commitment basis, excluding grants.
(f) Figures from IMF, ESAF/PFP, December 24, 1996. Current account excluding gross official transfers.
(g) IMF figures based on exports of goods and services. Other IMF estimates for debt service from ESAF Policy Framework Paper based on exports of non-factor goods and services show a decline in debt service payments as percentage of exports in recent years with 26 percent in 1993, 22 percent in 1994, 20 percent in 1995 and 19 percent in 1996.
(h) World Bank, *African Development Indicators*, 1996.

The strong macroeconomic performance of the past two years is a reflection of rapid, if uneven, sectoral growth. Expansion in major industrial sectors and agriculture has been vigorous (although some doubt remains about the magnitude of the agricultural sector response, due to wide differences in available statistics). Service sector performance has been more mixed. Important differences in responses also exist within these major groupings. Evidence on these contrasting sectoral trends is presented in Table 2.

TABLE 2
CHANGE IN REAL GDP BY SECTOR, 1992-1996

A. Real GDP (1987 CFA bn.)

	1992	1993	1994	1995	1996
Crop Production	163.6	143.3	170.2	165.2	183.6
Livestock	108.2	110.3	114.4	119.1	123.9
Fisheries	31.3	31.9	35.2	38	40.1
Forest Products	12.3	12.6	12.8	13.1	13.4
Total Agriculture	315.5	298.2	332.6	335.4	360.9
Mining	3.3	2.7	2.6	2.6	2.6
Cooking Oil	10.1	7.6	8.1	9.1	10.7
Energy	32.1	31.5	33	34.7	36.8
Construction	49.3	49.6	51.7	58.1	66.5
Other Industries	189.9	187.2	188.3	206.5	217.7
Total Industry	284.8	278.6	283.7	311.1	334.2
Transport	154.1	150.2	145.7	152.9	159
Trade	345.2	334.9	321.5	338.5	355.5
Other Services	249.4	250.4	257.1	272.5	281.8
Total Services	748.7	735.5	724.3	763.9	796.2
TOTAL GDP	1528.7	1497.2	1526.7	1599.4	1681.9

B. Change in Real GDP
Index of Real GDP, 1992-1996
(1992-1993 Average = 100)

	Average 1992-1993	**1994**	**1995**	**1996**	
Crop Production	100	111	108	120	
Livestock	100	105	109	113	
Fisheries	100	111	120	127	
Forest Products	100	103	105	108	
Total Agriculture	100	108	109	118	
Mining	100	87	87	87	
Cooking Oil	100	92	103	121	
Energy	100	104	109	116	
Construction	100	105	117	134	
Other Industries	100	100	110	115	
Total Industry	100	101	110	119	
Transport	100	96	100	105	
Trade	100	95	100	105	
Other Services	100	103	109	113	
Total Services	100	98	103	107	
TOTAL GDP	100	101	106	111	

Note: 1996 figures are estimates available as of April 1997.
Source: MEF/Direction de la Statistique et de la Prevision.

About the only areas that do not seem to be doing well are the trade and transportation sectors. As is clear from Table 2, value added in the formal trading sector has not picked-up significantly from the slow period of the early and mid-1990s. This lends credibility to the comments made to the team by some traders to the effect that they were interested in moving into manufacturing, since the market would no longer support an expansion of their trading activities. This stagnation in trading activity stands in stark contrast to the often stated fear that competition from imports — which are the mainstay of the trade sector — present an increasing threat to local manufacturers. Actually, given the shift in relative prices following the devaluation, it would be surprising if the opposite effect were not the case — as indeed it seems to be from the very different output trends recorded in the industrial and trade sectors.

CHAPTER TWO

THE PRIVATE SECTOR CONTRIBUTION TO RENEWED GROWTH

PREVAILING ANALYSES

Despite the very good macroeconomic numbers of the past two years, most assessments of Senegalese private sector performance have been reserved — lukewarm at best. There is little doubt that the private sector has been the main motor of growth since 1994; state owned enterprises (SOEs) have a relatively minor presence in the most dynamic subsectors.[2] Nonetheless, dour views about private sector supply response prevail in most evaluations.

An important 1995 study for the Conseil Economique et Social underscores the mixed nature of the response. The authors note the positive responses in construction and export related industries but underscore the general deterioration in the position of domestically oriented industries due to falling purchasing power.[3] Another study — this one an excellent work on the SME sector conducted in 1996 by the German Development Institute, concludes, based on an in-depth survey of 45 SMEs, that "contrary to optimistic expectations...the situation of SMEs has not improved in any general manner during the first two years following the devaluation."[4]

Although they give grudging recognition to a positive supply response among export-oriented SMEs in such sectors such as fishing and textiles, the authors give much more emphasis to the negative aspects of the devaluation. Thus they note that the dependence of Senegalese SMEs on imported inputs has limited the expected gains in competitiveness from the devaluation.

They also go to great pains to minimize the good news on employment that emerges from their own survey. Their results show tremendous increases in the number of temporary employees between 1992 and 1995. Eight of the 21 responding SMEs in their sample more than doubled their work force

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[2] The available data do not permit a weighting of relative contributions of SOEs and private firms to recent output growth. However, there are powerful reasons to believe that most of the growth has come from private actors. One reason is the limited presence of SOEs in the fast-growing industrial sector. The state retains majority ownership in only two major industrial firms — SONACOS (groundnut oil refining) and SENELEC (electricity). In two other large industrial firms where the state retains an equity interest — Industries Chimiques du Sénégal (ICS, which mines phosphates and produces fertilizers and chemical products) and the Société Africaine de Raffinerie (petroleum refinery) it is a minority shareholder. Since the share of vegetable oil refining and energy in total industrial output was only 11 percent in 1996, the aggregate share of cooking oil and energy cannot be much larger. Similarly, the quasi-totality of crop, livestock and fish production takes place in the private sector, so the share of state enterprises in agriculture must be very low. SOEs play a bigger role in services (transport, telecommunications, hotels), which have grown somewhat more slowly in recent years. The segments of the service sector that have grown rapidly — consulting, maintenance and repair operations, business services, restaurants — are mainly private.

[3] Conseil Economique et Social, *Rapport d'Etape: Etude sur l'impact de la dévaluation du franc CFA*, Dakar, Novembre 1995.

[4] Regine Qualmann, Ruth Frackmann, Thomas Ganslmayr, Birgit Gerhardus, Bernd Schonewald. "Les petites et moyennes industries après la dévaluation du franc CFA," German Development Institute, Berlin, 1996.

over this period, and 12 showed increases of over 50 percent. Only two reported declines. Despite these robust gains, the authors present their data in a negative light by saying that devaluation "has not encouraged enterprises to substitute labor for capital — they have only hired more temporary workers." This is a rather extraordinary interpretation when one considers that the vast bulk of labor in the SME sector consists of temporary employees and that their own data show massive increases in employment levels.[5]

Several recent reviews of the impact of devaluation in agriculture provide additional illustrations of the generally "negativist" twist most analysts seem to give to private sector response. The authors of one generally excellent and thoughtful analysis, conclude that: "While in general producer price incentives have increased, following the CFA devaluation, farmer supply response remains modest (mitigée) in most countries and for most sectors in the Sahel...."[6] They explain this by normal time lags and by the diluting effect of input price rises. But the interesting point is that they emphasize factors such as the decline of fertilizer use in cotton and peanut cultivation and the adoption of denser seeding in peanuts, not the lack of a supply response.

A group of related studies produced by the Institut du Sahel/Michigan State University Regional Food Security Project seems to be mainly concerned with the environmental sustainability of agricultural practices and acknowledges production increases with some reluctance. In one report, the fact that groundnut production rose by 25 percent in 1995-1996 is noted, but the authors immediately qualify this successful supply response by commenting that most of the output is sold in the "informal" market.[7]

Another summary "impact" note emphasizes negative supply responses. The authors first note that world price increases in cotton and peanuts have not been passed through to farmers: Senegalese cotton farmers receive only 40 percent of the world price in 1995-1996, and peanut farmers' share actually *fell* to 45 percent in 1995. They then write:

> "The domestic supply response to these stagnant or falling real prices in Senegal is striking. Cotton area and output decreased from 1993 levels by 20 percent in 1994 and 23 percent in 1995. Peanut production increased modestly, but in an environmentally unsustainable way. The modest increases in peanut production are due only to better rainfall, an increase in the area planted and a significant decrease in planting density — a technique that increases the rate of land degradation and loss of soil fertility considerably. Moreover, the increase in area of peanuts

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[5] While one might deplore the fact that most employment in the SME sector is done through temporary contracts and not permanent employment, this reflects underlying structural features of the Senegalese labor market and the judicial system that governs it. It is disingenuous to suggest, as the German Development Institute authors do, that the devaluation has somehow nefariously encouraged employers to substitute temporary for permanent labor, simply because there is a general expansion in employment that translates into a rapid increase in temporary employment given the nature of SMEs and the Senegalese labor market.

[6] Josué Dioné, J. Tefft, M. Yade, B. Kanté and Anne Chohin, "Ajustement Structurel, Politiques Economiques et Sécurité Alimentaire au Sahel," Contribution au Forum International du 20ème Anniversaire de l'Institut du Sahel, Décembre, 1996.

[7] Bocar Diagana and Valerie Kelly, "Will the CFA Franc Devaluation Enhance Sustainable Agricultural Intensification in the Senegalese Peanut Basin?" Policy Synthesis, #9, USAID Africa Bureau, February 1996.

cultivated was achieved at the expense of food crops (millet and maize particularly) leading to a decrease in food consumption by peanut-producing-households."[8]

These analytic works reflect what most people believe: that the macroeconomic deterioration and private sector slowdown evident in the early and mid-1990s may have been stopped, but that things are not getting better in any sustainable or verifiable manner. This general pessimism or caution often crept up in our interviews. More than one private sector operator noted for instance, that while on an aggregate level there may have been some increase in investment, this was principally to make up for deferred maintenance from the early 1990s and did not represent any extension of capacity nor have there been new investments for new product lines. Given these sentiments, the pessimism shown in most of the above works seems to be consistent with consensus opinion.

THE PRIVATE SECTOR RESPONSE: A CLOSER LOOK

The judgements of most of these studies seem unduly pessimistic. Some of this may be due to the fact that they came too soon: The devaluation of January 1994 was followed by a year of continuing uncertainty, slow adjustment and moderate growth in most sectors. Fieldwork for the German Development Institute study occurred, for instance, in the Spring of 1996. Thus the very hesitant experience of 1994 probably weighed heavier in the minds of most analysts than it would if today. From the perspective of the economic situation in mid-1997, it seems certain that a much more upbeat assessment can be made.

The data in Table 2 give some indication of this. Sectors which showed slow progress in 1995, but which expanded rapidly in 1996 include crop production and cooking oil manufacturing. In other areas such as construction, fisheries and the larger industrial sector as a whole, the strong growth of 1995 continued and seemed to constitute an identifiable trend.

Investment statistics confirm the view that there was a fundamental improvement in the private sector outlook after 1994. As shown in Table 3, the largest annual percentage increase in investment between 1990 and 1994 was a mere 3.5 percent in 1991. In contrast, investment grew by almost three times that rate in 1995 and again over two times as fast in 1996. More importantly, businesses have led the investment surge with double digit growth the past two years after five years of minimal growth (and declines in 1991 and 1993).

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[8] This statement can be faulted on four counts at least. (1) it neglects to mention that most marketed peanut production is sold on the parallel market and not at the "official" SONACOS price. (2) Available production figures, and especially those worked up by IMF staff, do not bear out the argument that production of dry cereals has fallen; millet output appears to have gone up substantially. (3)The rainfall factor may have entered, but it does not seem to have been mentioned in any of the available ISRA-MSU studies, or elsewhere. (4) The increase in peanut area cultivated does not necessarily lead to a decline in food consumption in peanut producing households. As the authors know, producers have higher incomes so it is unlikely that food consumption would decline.

TABLE 3
REAL INVESTMENT, 1990-1996

	1990	1991	1992	1993	1994	1995	1996
A. Investment in 1987 CFA bn.							
Households	26.8	28.0	29.0	29.5	30.9	34.3	36.5
Government	55.9	63.0	64.2	64.2	64.2	68.7	71.8
Private Businesses	95.9	93.9	97.7	96.7	98.6	111.0	122.1
Total	178.7	184.9	190.9	190.5	193.8	214.0	230.4
B. Percentage Change from Previous Year							
Households	7.6%	4.5%	3.6%	1.7%	4.7%	11.0%	6.4%
Government	-2.3%	12.7%	1.9%	0.0%	0.0%	7.0%	4.5%
Private Businesses	0.2%	-2.1%	4.0%	-1.0%	2.0%	12.6%	10.0%
Total	0.5%	3.5%	3.2%	-0.2%	1.7%	10.4%	7.7%

Source: MEF/Direction de la Statistique et de la Prévision.

Moreover, investment intentions, as measured by requests for investment code benefits at the Guichet Unique also indicate some buoyancy. In real terms, the total CFA value of new investment (domestic and foreign) approvals registered by the Guichet Unique increased by 41 percent in 1994, dropped by 8 percent in 1995 and again surged by 57 percent in 1996. The 1996 increase was fueled by particularly strong investment intentions in manufacturing (55 percent of applications and 68 percent of total value).

This sustained two-year increase in real private investment seems indicative of something more fundamental than a mere correction for past under investment. Although the assessment team was not able to do a detailed analysis of trends in private investment, it did find at least one piece of evidence to demonstrate that the often stated remark about there being "no new investments in new products" is a red herring. Colgate Palmolive has invested $4 million in new equipment in 1996 and plans to invest a similar amount in 1997 to tool up its production capacity to produce new products for the regional market and it is developing the first locally produced toothpaste in Senegal's history. Moreover, extension of capacity in cement is occurring on a large scale, new investments occurred in gold mining, and there are other positive signs.

Another reason why many observers may tend to emphasize the negative is that they are only looking at fragmented and isolated parts of the private sector, which is itself, extremely diverse. Many observers have a tendency to emphasize the sluggishly behaving parts of its principal segments, which are profiled briefly in the box below and in more detail in Annex 1.

Major Segments of the Senegalese Private Sector

Although all classifications of the Senegalese private sector are somewhat subjective, given the lack of good statistical information and a standard typology, most observers note three major segments:

- **Large Enterprises** ("Grandes Entreprises"), which are usually defined as those with over 100 permanent employees or with over CFA 500 million ($900,000) in paid-in equity.

- **Small and Medium Enterprises** (SMEs, or in French "PME/PMI"), defined as those employing from 5 to 100 employees and under CFA 500 million in equity. These firms generally have fixed locations, are registered with the proper authorities, keep regular accounts and, generally try to keep some degree of separation between the corporate identity and that of the principal owners.

- **Informal Sector Enterprises**, which have fewer than five employees, but may or may not have a fixed location or be registered with the authorities and in which there is little effort made to separate the business and personal finances of the owners. These enterprises exist in a freer regulatory environment in such areas as labor regulations and fiscal imposition. They include both self employed individuals and micro-enterprises with fewer than five employees. The informal sector also includes larger concerns, often organized around trading activities, that exist outside the regulatory environment applied to SMEs and larger enterprises.

The distinctions between these different segments is not always neat. The first two segments correspond to what most people consider to be the "formal" or "modern" sector. But the line between the smaller and less structured SMEs and informal sector micro-enterprises is sometimes difficult to draw. Larger informal concerns may have revenues and employment levels well above those of many SMEs.

The different segments of the private sector have participated in this growth to varying degrees. **Large enterprises** in the industrial sector have definitely responded to devaluation and are increasing their output. Major industrial firms such as ICS (fertilizer and chemicals) and SOCOCIM (cement) are operating at full capacity and reportedly planning new additions. Colgate Palmolive also envisions significant new investments aimed at increasing its capacity to service regional markets and is developing new products as described above. The natural gas distribution sector in which Shell and Mobil have major parts is also reported to be doing exceptionally well, as government incentive programs seeking to discourage the use of wood for cooking have spurred demand for natural gas. Textile manufactures have regained markets lost to exports and several firms that had ceased operations have reopened their doors.

SMEs have also contributed to the rising growth rates shown in Table 2. Although the German Development Institute study found that only 3 out of 45 SMEs reported re-sourcing inputs from foreign to domestic sources following the devaluation and that no new exporters emerged from the sample, there is plenty of anecdotal evidence to suggest that the overall picture for Senegalese SMEs is hardly as dark as this might suggest. SMEs seem to have been the major sources of growth in certain sectors. This is almost certainly the case in the construction sector where AGETIP estimates that over 250 viable going concerns in the small construction and maintenance sectors have arisen to respond to opportunities in public works contracting and that as many as 2,000 firms and individual enterprises have been created due to the growing practice of contracting out construction work. A similar growth in business services, including maintenance, consulting, temporary manpower contracting, printing and publishing also seems to be under way.[9] The experience of the water and sanitation contracting firm GEAUR, presented in the box below, is illustrative of this growth in SME service providers.

Générale des Eaux et de l'Assanissement Urbain et Rural (GEAUR)

GEAUR was founded as a SARL in 1990 by Babacar Ndiaye who had 15 years of experience as a hydraulic engineer with the Senegalese water parastatal, SONES. After several short internships with various private French water companies, Mr. Ndiaye became convinced that there was an untapped market for developing similar private water resource development and exploitation utilities in Senegal due to the general incapacity of SONES to respond to growing demand for drinking water, irrigation and waste water evacuation resulting from urbanization and rural development. Mr. Ndiaye financed the firm with his SONES retirement package, by selling his house and car and by borrowing from family members and began operations in a borrowed classroom in a friend's school. After early work doing residential plumbing, he got his first major SONES contract in 1991, followed with some sewer cleaning and pumping work contracted by AGETIP. After its first year of operation in 1991, GEAUR had 10 permanent employees and revenues of CFA 131 million. With the rapid growth of public contracts to build rural water towers, GEAUR's business expanded rapidly in 1994 and 1995 so that by the end of 1996 its revenues had grown to CFA 1.5 billion and it employed 48 permanent employees and over 150 temporary ones. Although GEAUR has grown rapidly, with the foreseen privatization of the Water Ministry's Direction de Equipement et Maintenance (DEM) that is currently responsible for upkeep and maintenance of rural water systems all over Senegal, it is well positioned to expand from its work in constructing rural water supply systems into exploitation and maintenance.

One problem facing GEAUR is the competition it faces from donor and NGO projects in the domain of rural water supply and management. In one example, a large French Volunteers for Progress project to develop and maintain rural wells in the St. Louis and Louga regions is preempting GEAUR from a potentially large segment of the market. Further problems are likely to arise if such projects use donor subsidies to lower their service costs to users to levels that private unsubsidized Senegalese firms cannot match. Such situations are likely to lead to consumer demands for equity — producing further pressures to favor donor organized water supply projects over sustainable Senegalese private sector providers.

The fish processing sector provides a good example of the new dynamic response of Senegalese SMEs. At the time of the devaluation, fish industry experts estimate that there were about 25 active fish processing firms producing for the export market. With the doubling of export prices due to the devaluation, however, many new entrants were attracted to the sector. By 1997, there were a reported 55 firms engaged in processing for export — with most of the new entrants being SMEs. While the one or two established firms (including large enterprises) that had sufficient cold storage and processing capacity to rapidly expand production right after the devaluation reaped large initial margins in the first months of 1994, the many new entrants soon bid up the price of export quality fish and profit levels dropped.

[9] Qualmann et al. report that SMEs have recently entered into book publishing.

The fish processing sector is now one of the most dynamic and competitive areas of the Senegalese economy with a variety of producers of different sizes all competing for raw fish. Output has increased by over one-quarter from 1992-1993 levels. The imposition of mandatory EU quality control licenses on firms seeking to export to the European market in early 1996 has necessitated significant investments for many SMEs. Qualmann reports that most SMEs have made the required improvements and are now EU license holders, which bodes well for their continued viability. On the firm level, particularly for the well established firms, the recent proliferation of competition has caused some difficulties. Yet the sector has unambiguously benefitted from the devaluation and entry of new SMEs. If anything, the current reported mediocre profit levels are an indication of a healthy competitive market. This might not be reason to cheer for individual firms, but for the economy as a whole it is very good news.

Concerning the **informal sector**, judgements are hard to make. But the predominance of agricultural activities in the informal sector would seem to indicate that the sector has evolved largely in tandem with incomes from crop production — which increased sharply in 1996 after slow growth in both 1994 and 1995. Many observers have also noted a tendency for increased activity in the informal sector following the decline in purchasing power that arose after the devaluation. This has likely produced a phenomenon similar to that of the entry of new firms into the fish processing sector — more competition and possible lower returns to informal sector activity at the firm level, while output for the sector as a whole expands.

Agricultural supply response merits more comment than we can give it here. Some critical observations on "response pessimism" were recorded earlier. In general, there seems to have been some supply response where reforms have been effective. The production of the main cereals increased an average of 13 percent annually during 1994-1996, compared to 1993. (Because of producer price increases, gross money incomes of cereals farmers rose an average of 65 percent over the same period.) In 1996, estimated dry cereals production was up 40 percent over 1993. These numbers come from IMF staff estimates, and are larger than the raw numbers in the provisional national accounts. (See Annex 2, Table 2-1 for details.)

Peanut production, according to the IMF estimates, has also increased smartly: the 1994-1996 average is 20 percent higher than in 1993, and 1996 production is estimated to be 37 percent higher. Not all crops have done well. Maize, paddy (rice) and cotton languish. Part of the problem with cotton is that higher CFA prices available in export markets have not been passed through integrally to producers. Also, the ratio of producer price to input costs improved very little for cotton (up only 6 percent between 1995-1996 and 1993, compared to a rise of 20 percent for peanuts.[10]

As many observers have pointed out, the policy reforms are only a part of the attack on Senegal's rural development problems. Environmental sustainability for peanuts is a real issue, underlying which are problems of fertilizer and extension policy and agricultural research. The stock of farm equipment is running down. Rural credit remains in disarray, and rural infrastructure lacks. Perhaps most pertinent here, the transfer of intermediary functions to private actors has been imperfect, and in some key areas private sector institutions are performing weakly. The price of vegetable seeds has doubled, for example, and it is not clear that local supply is forthcoming. Nor have private distribution networks emerged for fertilizer — which should not be surprising given the thinness of the market. Moreover, even the long

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[10] James Tefft and Jean-Charles la Vallée, "L'Evolution des Filières Coton et Arachide en Afrique de l'Ouest Aprés la Dévaluation du Franc CFA," ISRA et al. rapport provisoire, sans date.

term credibility of the changed incentive structure is in doubt, given the continuing uncertainties about price determination in cotton, tomatoes, rice and peanuts, and government backsliding on some of the market liberalization measures, which will be considered below.

CHAPTER THREE

SOURCES OF THE TURNAROUND

How can the surge in GDP growth after 1994 be "explained?" Three main possibilities are at hand: (1) the extensive economic policy reforms of recent years, including (especially) the devaluation of the CFA franc in January of that year, may have unleashed a new growth dynamic; (2) exogenous factors may have come into play, notably favorable changes in terms of trade or favorable rainfall patterns (both of these have been identified in econometric analyses as major growth determinants in Senegal); and (3) injections of greater volumes of foreign assistance may have stimulated economic activity. To attempt detailed analysis of the impact of these factors would be of doubtful value (it is too soon to see many impacts and data are missing and/or unreliable). In any case, it would take us far beyond our present mandate, need and possibilities. We therefore treat the issues with a broad brush.

POLICY REFORMS

The Government of Senegal has been engaged in economic reforms for two decades: the first efforts to reform the parastatal sector date from 1977. Reform has been stop-and-go over these years, intense in the mid-80s, slower at the end of the decade. Episodes of retreat occurred — in the early 1980s, for example, when the last tranche of the first World Bank structural adjustment loan was canceled, and in 1988, when the trade liberalization measures of the so-called New Industrial Policy were erased.

The devaluation of January 1994 ushered in a period of accelerated macroeconomic reform, accompanied by the adoption of far-reaching "structural" measures aimed at greater liberalization of markets and institutional reshaping.

The macroeconomic measures, in addition to the exchange rate change , introduced stronger fiscal management, on both revenue and expenditure sides, and moved to more market determined interest rates and credit allocation mechanisms. The broad effects on budget and current account balances, on inflation, and on other indicators were outlined in Table 1 above.

To achieve those results, the GOS has substantially improved revenue collection efforts and maintained tight controls on public spending. Growth in numbers of civil servants has been curtailed, and a ceiling placed on the size of the public sector wage bill. Between 1993 and 1996, real wage rates of civil servants fell by about a third.[11]

On the revenue side, collection efforts have been intensified. Tax administration has been strengthened, and moves undertaken to expand the tax base. Monetary growth has been modest and declined as post-devaluation inflation fears receded. The banking system has largely recovered from the crisis conditions of the early 1990s. The loan recovery institution charged with collecting doubtful loans from the balance sheets of restructured banks is making real headway.

[11] Dioné et al., p. 10.

These adjustments were intended to create a more stable macroeconomic environment. They were accompanied by a set of structural policy reforms of unparalleled scope. Many donors have collaborated with the GOS in the development and implementation of these reforms — the IMF via its adjustment facility, USAID by its agricultural policy grants, French cooperation by its grant for consultations and studies on general regulatory reform, and the World Bank by its Private Sector Adjustment and Competitiveness Project (PASCO).

The range of the recent reforms is indicated in Tables 4 and 5. Clearly, this set of reforms was more than simply minor tinkering. Some of the measures were directed at critical components of the system of protection and administered markets that envelops the Senegalese private sector. Of particular note are the PASCO reforms that:

- Eliminated customs reference prices and import authorizations, which have long been major mechanisms for import protection;
- Attacked the *conventions spéciales* system, by which Government conferred extraordinary protection from competition, along with subsidies and tax exemptions to individual enterprises;
- Abandoned price fixing on numerous products; and
- Sought to make it easier for employers to lay off workers during economic slowdowns.

TABLE 4
PASCO REFORMS

Objective	Measure	Implementation Status
1. Promotion of Competition in Domestic and External Trade		
Liberalize foreign trade	Abolish reference prices (*valeurs mercuriales*) for all imports	Implemented 6/94
	Suppress prior authorizations (*autorisations préalables*) for imports of certain goods	Implemented 6/94
	Issue application decree of anti-dumping law	Implemented 1/95
Promote greater competition in domestic markets	Pass competition law and create Competition Committee to adjudicate disputes relating to abuses of market power	Implemented 8/94
	Pass decree liberalizing prices of controlled products	Implemented 1/95
	Terminate and renegotiate special agreements (*conventions speciales*) granting companies tax advantages and protected markets	Implemented between 8/94 and 10/95
2. Export Promotion		
Increase exports and promote investment in export enterprises	Suppress prior authorizations (*autorisations préalables*) to export cereals, confectionary peanuts, jewelry and tomato products	Implemented 6/94
	Allow imports of packaging products through duty-free temporary import regime	Implemented 6/94
	Evaluate and review free-trade zone system to encourage greater transparency and rationalize benefits	Implemented 12/95
	Complete study to determine measures needed to improve temporary admissions system; implement recommendations	Partially implemented
	Simplify foreign trade procedures	Implemented 11/94

Objective	Measure	Implementation Status
3. Investment Promotion		
Simplify procedures and regulations	Abrogate prior authorizations (*autorisations préalables*) for the exercise of certain professions; agree on a limited list where such authorizations are valid for safety or security reasons	Implemented 2/95
	Reduce taxes associated with establishing new enterprises	Implemented 5/95
Promote investment	Simplify investment regimes and procedures	Implemented 11/95
	Develop and pass law allowing sale of public industrial and commercial land	Implemented 7/95
4. Reduction of Labor Costs		
Improve labor market flexibility	Allow businesses to lay off workers for economic reasons	Implemented 12/94
	End hiring monopoly of Port of Dakar manpower agency	Implemented 11/95
5. Reduction of Maritime Transportation Costs		
Increase competition in the seas transportation sector	Abolish monopoly of SOE shipping company on the 40 percent of shipping reserved for domestic carriers	Implemented 6/94 to 1/95
Reform the public shipping intermediary organization — COSEC	Give private sector importers and exporters majority control of COSEC's Board of Directors; review mandatory COSEC levy on imported goods; and abolish COSEC levy on exports	Substantial implementation 12/95
Improve efficiency of port authority	Allow transshipment of sealed containers within port and between port and free-zone points	Implemented 1/95
	Conduct study of measures to reduce costs associated with port and airport; implement recommendations	Not implemented

TABLE 5
ADDITIONAL REFORMS SINCE 1994

— Liberalization of the producer price of rice
— Privatization of production and distribution operations of national water company
— Liquidation of waste disposal company SIAS
— Call for bids on privatization of SONACOS
— Ongoing privatization of SONATEL and SONATRA-Air Senegal
— Initiation of privatization of phosphate company SSPT
— Preparation of an action plan for next phase of public enterprise reform
— Liquidation of import monopoly for wheat and rice (CPSP)
— Privatization of rice mills
— Privatization of road maintenance
— Implementation of a staff reduction plan at the national railway
— Completion of an audit of the civil service
— Settlement of cross debt with public enterprises
— Completion of a survey of extrabudegtary arrears

Source: adapted from IMF, Request for Third Annual Arrangement Under the Enhanced Structural Adjustment Facility, December 20, 1996.

Of all the reform measures, only the devaluation seems to have had a substantial effect in stimulating growth. The prices of most important tradeable did become more favorable. The exchange rate change sharply reduced the profitability of smuggling, and made fraud harder, thereby providing genuine protection for local producers.

The so-called "structural" reforms (liberalized markets and institutional changes) had spotty effects, mainly because they were only partially implemented. As we will show later, reference prices and other forms of special import protection persist, though in disguised forms. Price controls also persist, indirectly; price determination in major commodities remains non-transparent in any event. The importance of the labor market reforms was exaggerated by the reformers: employers long ago adapted to these rigid market institutions, by subcontracting many operations and by hiring mainly temporary employees. In any event, employers say the labor market problem remains, though in different guise; now inflexibility in firing arises from a judicial system that is ponderous and is regarded as biased by most employers.

EXOGENOUS FACTORS

Rainfall and terms of trade changes are the two exogenous factors that have been found to be significant in econometric analyses of Senegalese economic growth.[12] Rainfall data for the three years 1994-1996 are not at hand, so it is not possible to make even broad judgements about whether unusually good rains might account for some of the increased agricultural production. Most of the studies of agricultural performance during these years are silent on rainfall patterns; so we assume it was not a major factor. Indeed, the only mention to rainfall that we found in recent writings is the ISRA et al. *Policy Synthesis* paper cited above.

Did favorable rises in world commodity prices contribute? Probably, yes. Comparisons of prices of cotton, peanuts (groundnuts) and phosphates between 1991-1993 and 1994-1996, shows a mixed pattern.[13] Cotton and groundnut oil prices were about 30 percent higher in 1994-96 than in 1991-93. Rock phosphates were some 10 percent lower in the later period. Senegal exports crude and refined peanut oil and imports other vegetable oils for local consumption. Since only a part of cotton and peanut price rises were passed through to farmers, the impact on producer incentives was muted, though the two *filières* benefitted. On balance, it seems likely that external price movements played a positive but not substantial role in driving Senegalese growth since 1994.

AID INFLOWS

It is conceivable that an acceleration of aid disbursements after 1994 explains some of the recent growth. Major aid donors were holding back on new commitments in the early 1990s. The World Bank and IMF in particular argued that in the presence of the large macroeconomic disequilibria that prevailed — especially the overvalued exchange rate — little good could come of foreign assistance. Promises of assistance were made on condition that the CFA parity be changed. So it is not unreasonable to believe that declining disbursements in the early 1990s and a rush of new inflows after January 1994 are relevant.

[12] For example the annex to the December 1996 IMF report on Recent Economic Developments, and the 1990 study, headed by Erik Thorbecke, of Senegal's relations with the World Bank.

[13] The prices are given in Annex 2, Table 2-2. These are only indicative of movements in Senegal's import and export prices; since commodity definitions do not match those of Senegal in many instances (rice, for example is 5 percent brokens, while Senegal's imports are mostly 100 percent brokens and much cheaper). In any case we are concerned here only with export price changes.

The problem is that convincing data are not at hand. The latest aid numbers come from the World Bank's *African Development Indicators, 1996*. These show average net official development assistance (ODA) to Senegal in 1991-1993 amounting to a little less than $600 million a year. The year 1994 saw net ODA rise to $645 million, an increase of 10 percent over the 1991-1993 average, and about 25 percent above 1993's inflow of $518 million.

Relief via external assistance came also through debt relief. In 1993 debt rescheduling and other relief measures totaled only CFA 10 billion. In 1994 154 billion was rescheduled, 20 billion was deferred via the Paris Club and 16 billion of debt was canceled. In 1995 almost 80 billion of debt relief took place.

External assistance by debt relief certainly contributed to Senegal's improved macroeconomic performance, and — by increased financing of investment — to the pick-up in GDP growth. But the available national accounts data don't show much of an increase in public sector investment. So while the aid effect was positive, it was probably small in magnitude.

CHAPTER FOUR

REMAINING CONSTRAINTS TO PRIVATE SECTOR DEVELOPMENT

Whatever the sources of recent growth, and however the past responsiveness of the private sector is assessed, it is essential to understand the nature of the constraints that continue to hold back private initiative. Loosening these constraints should be the objective of Senegalese public policies (and foreign aid programs) aimed at making the private sector a more powerful engine of growth.

These constraints are numerous. Some operate primarily at the level of the enterprise — for example, shortages of trained managers and technicians, lack of experience in marketing, lack of attention to strategic planning, sparsity of in-house training arrangements. Others are embedded in the immediate business environment — for example the high cost, low quality and sometimes scarce supply of inputs, inadequate physical infrastructure, and insufficient access to credit and to expertise. And some are in the business-related policy and administrative environment — investor and entrepreneurial uncertainty about the government's commitment to liberalization, lack of transparency in government policies, administrative practices that discourage private initiative, and ineffective business support institutions.

The intra-enterprise constraints, notably in SMEs, have been well-diagnosed and described in other recent reports. They are addressed here mainly when we consider possible remedial interventions. The "structural" constraints resulting from high-cost inputs are equally well known. We describe them only briefly and make no policy or program suggestions on them, since this would carry us well beyond our competence and our mandate. The emphasis here is on the policy and administrative constraints — on the "business climate." These continue to be of great weight and many are not well-understood.

THE BUSINESS CLIMATE IS STILL UNCONGENIAL

Senegal has made decisive moves in recent years away from the state-led development strategy that characterized the two decades after independence. Government has embraced policies of state shrinkage and endorsed the private sector as the main engine of growth. It has engaged in extensive policy reforms aimed at liberalizing markets and at lighter regulatory arrangements.

All of this has certainly improved the environment for private sector activity. But relative to the distance to be traveled the improvement is small. Many foreign investors and local businessmen continue to perceive the environment as unfriendly. Three sets of factors feed this perception: skepticism about the GOS commitment to liberalization; the lack of transparency in decision-making and implementation coupled with a generalized suspicion that the playing field is uneven; and the persistence of administrative delays weaknesses and harassment.

Skepticism about Government Commitment to Market Reform

Senegal's liberalization program since 1994 has been in many ways a textbook case of reform, an example of the state of the art in externally sponsored structural adjustment. Senegalese participation was genuine and extensive; there was much listening by the outside partners. The reforms were carefully crafted. The consultative committee and study-as-you-go approaches was highly innovative. The reforms were well-targeted and sequenced. The conditionality was specific and heavily front-loaded.

That some dimensions of the adjustment/reform program have not made much progress is acknowledged: the privatization program has proceeded slowly, and civil service reforms have also lagged. But the implementation performance on the trade policy-related reforms and those relating to market liberalization has received high marks. Thus, the December 1996 completion report of the World Bank's Private Sector Adjustment and Competitiveness project (PASCO) states that with respect to the elimination of price controls, abolition of nontariff barriers and elimination of monopoly privileges, "... all measures envisaged by the project were implemented before Board presentation..." and the objective of this component (the reforms listed in Table 4 above) "...was substantially achieved."[14] In some cases, such as the elimination of price controls, implementation is said to have exceeded the negotiated requirements of the PASCO.[15]

Yet, in interviews with private sector operators, a common refrain is that implementation has been patchy and that change has been relatively slow and ineffectual. They argue that implementation of many reforms has been superficial. And in fact, close reading of the legal texts (*lois, arrêtés* and *décrets*) establishing the reforms reveals frequent and significant provisos that detract from their primary purpose.[16] In other cases, the texts may be clear and unambiguous, but private sector operators report that they are implemented imperfectly or arbitrarily. In addition, recent months have seen the adoption of a number of anti-liberalization measures that are indicative of reform backsliding. The clearest examples are with respect to price controls and restrictions on free entry in commerce.

Intervention in Domestic Markets

Despite the elimination of price controls on most goods in 1994 and 1995, the legislative texts and decrees which lifted these controls, also gave the Government wide-ranging power to intervene in private markets and pricing. The new competition law of August 1994 clearly authorizes the Ministry of Commerce to fix prices for up to 4 months in "exceptional circumstances" which include disasters but also situations in which markets appear to be "obviously abnormal." The accompanying implementation decree of January 1995 states that the Government retains the authority to administratively determine prices for rice, charcoal and petrol and can institute a procedure of administrative review ("*homologation*") of market prices for wheat and cereal flour, natural gas, bread and pharmaceuticals...."[17]

[14] World Bank, *Implementation Completion Report; Private Sector adjustment and Competitiveness Credit*, Report # 16210-SN. December, 1996.

[15] The government's report on PASCO implementation notes that while prices of 24 basic goods and services were administratively determined before PASCO, this was reduced to 11 by November 1995, in the framework of either PASCO or the Agricultural Sector Adjustment Program. These controlled items are: bread, locally-produced medicines, health services, butane gas, charcoal, petroleum products, urban transport, transport, electricity, water and telephone services. (Ibid, p. 18.)

[16] The main texts are conveniently assembled in République du Sénégal, Primature, *Libéralisation de l'Economie; Les Fondements et les Instruments Juridiques*. Recueil des lois, décrets et autres textes. Cellule d'Appui à l' Environnement des Entreprises, Septembre 1995.

[17] There is some ambiguity here. As noted in footnote 14, the GOS states in its comments on the December 1996

Price controls can be reimposed on very broad grounds ("for economic and social reasons"). Lest anyone doubt the Governments' will to use these laws to intervene in markets, the February 1997 *arrêté* fixing margins for rice serves notice that there is real bite in these provisions. The rice market intervention in February involved old-fashioned government fixing of prices at the retail and wholesale levels. That it was technically flawed is less important than that it severely shook confidence in the reality of liberalization among important segments of the private sector.

The occasionally heavy-handed implementation by the Ministry of Commerce's economic control unit (Contrôle Economique) added fuel to this fire. They were quick to seize rice stocks and penalize offending traders. In rice and other sectors, some members of the economic control unit exploit ambiguities in texts and the complexities of the private price determination process to create opportunities to harass traders. According to spokesmen for the main trader organization (UNACOIS) the economic control people in recent months issued some 400 penalties. This situation is not helped by the practice of awarding officials a share of the fines they impose.

Even in sectors in which price controls are supposed to have been unambiguously eliminated, ambiguity surrounds price determination. Cement prices, for example are cited ex-factory, and there is a conventional mark-up cited for sale at wholesale ands retail levels. But the basis of this mark-up is not clear; it has no legal foundation. It is a mystery (which the team was unable to investigate in detail) why SOCOCIM should sell at an ex-factory price that is very far below the market price after cement prices have been completely liberalized — effectively allowing intermediaries and privileged purchasers to enjoy resulting rents instead of capturing them itself.

Ambiguity about prices is particularly pervasive in the major agriculture sectors. An agreement signed in 1996 between the GOS and the European Union specifies certain pricing rules for peanuts, including negotiations between an "interprofessional committee" and deductions for a stabilization fund. Apparently, these rules have never been applied. The prevailing situation seems to be that there is an "official" price for unshelled peanuts which is set by the monopsonistic buyer, SONAGRAINE, and a market price at which much marketed local production is sold — the so-called "parallel market price."

The price at which cotton fibre is to be sold to textile producers is an item of ongoing contention, as is the purchase price offered for tomatoes to be paid by the cannery and paste producer (SOCAS). Government spokesmen deny that price-fixing is at issue in these instances. They says that prices are "negotiated" between the various groups in the *filières*. But government is certainly deeply involved in setting these prices, by its strong role in the subsectoral dialogues and by throwing its regulatory weight behind the administrative decisions resulting from these "negotiations."

The main example of backsliding, in addition to the rice marketing intervention in early 1997, is the *arrêté* of February 1997 entitled *"Organisant les stades de commerce."* This *arrêté* obstructs free entry into trade in a major way. It prevents manufacturers (*"industriels"*) from selling directly to retailers or consumers; *requires* every trader to choose between being classified as a "wholesaler" or a "retailer" (except that it is allowable to be a wholesaler in one location and a retailer in another). Importers are considered to be wholesalers. In addition, *industriels* and wholesalers (and hence

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PASCO implementation report that administrative pricing remains in force for the 11 products, which the 1995 application decree states are "subject" to price controls.

presumably importers) are required to bill customers as specified in an August 1994 law. They are also required to declare their stocks, as specified in an *arrêté* of 1977.

The apparent rationale for this extremely retrograde measure is to ensure "fair competition" Spokesmen for the Ministry of Commerce argue that liberalization does not mean license — an unregulated economic jungle. Regulatory arrangements in Senegal are inadequate, they say, allowing markets to work in undesirable ways — for example by cartelization and allowing the exercise of market power. Hence the need for the regulations introduced in this *arrêté*.

The empirical basis for believing that liberalization in Senegal has led to market conduct or performance of this kind is not evident. It is easy to see why private sector operators and other observers believe that this *stades de commerce arrêté* represents simply the reassertion of profoundly *dirigiste* propensities that were only papered over by the recent reforms.

Limited Exposure to External Competition

In addition to ambiguities as to how free domestic markets are, the limited extent to which trade protection has been reduced is a further source of skepticism about commitment to reform. This affects outsider (especially aid donor) perspectives particularly, since the competitiveness of the economy is at issue. But local economic operators are affected by the restrictions on entry that are implicit in policies of protection or award of special fiscal advantages.

According to the PASCO completion report, "all special agreements (*conventions spéciales*) were terminated and the advantages theat they granted were abolished except for those concerning two exporting enterprises ICS (fertilizers) and SODEFITEX (cotton)." The completion report further specifies that the advantages maintained for these two firms concern only the duty-free importation of inputs, which is justified since both firms produce mainly for the export market.

In reality, however, it is not clear that the reform effort has been so sweeping. The much higher level of protection implicit in the 1994 devaluation brought some previously sheltered firms to the point where they are competitive internationally and are able to function without any special fiscal favors. This is the case for such firms as ICS and SOCOCIM. In other cases, even after the devaluation, many firms still seem unable to confront international competition without surcharges being added to the already significant level of tariff protection. This seems to be the case for CSS (sugar), SOCAS and SNTI (tomato paste), SOCOSAC (plastic bags) and GMD and SENTENAC (wheat flour) for which the special protective surcharges described above were created to compensate for the special privileges taken away in renegotiation of the *conventions spéciales*. In these cases, the elimination of the *conventions spéciales* has not really exposed these firms to greater import competition.

Given the high pre-devaluation average level of protection,[18] and the added protection provided by the changed CFA parity, plus the surcharges provided for vulnerable firms, it seems unlikely that import competition is any more vigorous now than it was before 1994. This is so despite the removal of formal nontariff barriers and the elimination of the *conventions spéciales*.

[18] In 1992, Senegal's overall effective tariff rate (the ratio of customs receipts to total imports) was 34 percent, its rate on final products 41 percent. It is not clear whether these rates have since fallen. (See C. Rosenberg, "Fiscal Policy Coordination in the WAEMU After the Devaluation," IMF Working Paper, 1995, Table 1.)

Policy Instability: Changes in Terms of Operation at the Dakar Free Zone

The Dakar Free Zone (the *Zone Franche Industrielle de Dakar*) has generally been regarded as a failure. In 1994, after nearly 20 years of operation, it contained only 5 functioning enterprises employing 500 persons. Although enterprises in the Zone have benefited from tax exemptions, duty free import of inputs and the right to sell up to 40 percent of their output in the domestic market, the zone attracted little interest from outside investors. Factors contributing to this mediocre performance include the high factor costs of the Senegalese economy, the requirement that firms hire at least 150 employees (which limited the Zone's attractiveness to potential SMEs), and a general tendency for technical ministries to require approvals and certifications from firms in the Zone despite negotiated agreements exempting them from such oversight. The essential advantages of the Zone were also transferred to firms outside of the zone with the development of the "Points Francs" enterprise status in 1991.

In recognition of these difficulties, the Ministry of Finance, has created under the new investment code a special category of firm called the Entreprise Franche d'Exportation (EFE), replacing the Points Francs and the Free Zone. While EFEs will continue to benefit from duty-free import of inputs, there are a number of important differences between EFEs and firms operating under the current Free Zone/Points Francs investment regime:

- EFEs will be subject to a 15 percent tax on profits, whereas in the current Free Zone/Points Francs regime, enterprises had a complete exemption;
- EFEs will only be allowed to sell up to 20 percent of their production in the Senegalese market, while Free Zone and Point Franc firms could sell up to 40 percent in the local market;
- Disputes between EFEs and the Government will no longer be subject to outside arbitration as with the Free Zone, but will be dealt with through the Senegalese judicial system;
- The EFE status is subject to review and can be revoked at any time; and
- EFEs must deal directly with different Ministries and agencies regarding import and export operations, rather than with the centralized "one-stop shop" for exports and imports in the Free Zone.

As the agreement establishing the Free Zone ends in 1999, enterprises established in the Zone will have the choice of becoming EFEs or registering under the normal investment regime administered by the Guichet Unique. While there are valid reasons behind many of the changes introduced in the EFE regime (such as the desire to enlarge the fiscal base and to reduce the number of special investment incentive arrangements), in some respects it represents a significant step backwards. Potential investors may be discouraged in particular by the greater degree of administrative involvement in enterprise affairs that results from removal of the screen provided by the Free Zone administration. Other changes are equally likely to be unappealing to investors — for example, the tenuous nature of EFE status and the reallocation of responsibility for dispute settlement to Senegalese judicial authorities whose independence form Government pressure may be subject to reasonable doubt. Although the results of the

Free Zone after more than 20 years are not outstanding, these new measures will make investment in Senegal less attractive, unless there compensatory changes occur in the general investment climate.

Lack of Transparency and the Perception That the Playing Field Is Uneven

Enterprise is most fully unleashed and investment flows are most responsive where entrepreneurs and investors are treated even-handedly. However, in Senegal, there is very widespread belief that even-handedness does not prevail, that economic policies are slanted in favor of one or another individual or group.

This perception of an uneven playing field is not restricted to any one group of actors or any particular economic sector. For example, representatives of the larger expatriate firms are convinced that the tax laws and social legislation are strongly biased against them, that informal sector producers and smaller Senegalese firms pay no taxes, and that these Senegalese firms are subject to much less stringent application of labor regulations regarding wages and benefits. Many Senegalese on the other hand, are convinced that the lending policies of the commercial banks, which are mostly expatriate-owned and managed, are biased against them in favor of expatriate borrowers. Many believe that this bias is a major reason for their limited access to medium or long term loans in particular. Both perceptions are probably true, though not rooted in public policy biases.

Even among Senegalese firms there are suspicions that public and political officials are able to exert influence to extend discretionary privileges to particular firms either in the form of laxer application of regulatory standards or in tax exemptions. Enterprise managers report that such favors are often extended to prop-up firms that are in danger of failing. While this may help preserve short-run employment, it also creates serious longer-run competition problems as “assisted” firms continue to compete and win market shares from firms that do not benefit from special derogations.

It is hard to know just how much of this belief in lack of even-handedness is based in reality, and how much derives from the lack of transparency that is common in Senegalese policy-making and implementation. This is evident in the ambiguity that surrounds many of the liberalization measures introduced since 1994, ambiguity that is reflected in the perceptions of many Senegalese private sector operators.

Trade Reform Implementation Uncertainties

The issue of reference prices and trade liberalization is another area of doubt among many private sector players. The use of reference prices (*valeurs mercuriales*), rather than invoice prices, to establish the value of imported goods in customs for tariff calculations has a long and controversial history in Senegal. Supporters say they are the only sure way to protect local producers against dumping. Critics attack them as a non-transparent and easily manipulable mechanism for avoiding import competition.[19]

According to PASCO conditionality, all reference prices were abolished by an *arrêté* of June 1994 and an operational note issued by the customs service on January 30, 1995. Senegalese importers

[19] It also runs afoul of GATT and WTO agreement rules.

vigorously state, however, that they continue to exist for products such as sugar, plastic bags, tomato paste and wheat flour — calling them "*surtaxes*."

In reality, there are grounds for confusion. While the use of reference prices is officially abandoned, the renegotiations of the *conventions spéciales* afforded to the producers of these four products do offer special instruments of protection that many seem to be confusing with the old reference price system. In the case of sugar, for instance, this is hardly surprising, because the new terms of the sugar refinery's (CSS) special agreement do, in fact, duplicate one feature of the pre-reform system: it establishes a "*prix de reference*" that becomes the accepted tariff base. But it also imposes a special duty equal to the difference between the invoice price and the "*prix de reference*."[20] This reference price for sugar, set initially at 270 CFA/Kg, is scheduled to decrease gradually to 256 CFA/Kg in 2000.

For tomato paste, wheat flour and plastic bags, the renegotiated protection mechanisms are tariff *"surtaxes"* which are additional tariff percentages points that are added to existing tariff rate and are supposed to be applied on the basis of the invoice price. These are also supposed to be eliminated over two to three years.

Many traders do not seem to distinguish between reference prices (as exists for sugar) and the "surtaxes" that are temporarily allowed for tomato paste, wheat flour and plastic bags. Some assert that reference prices exist for other imports, such as cement.

In any case, these products continues to be legally subject to import taxes that either function exactly like reference prices (sugar), or are understandably confused with reference prices (tomato paste, plastic bags and wheat flour). It is not clear whether the confusion in the latter case arises because traders mix up *surtaxes* and reference prices, or because customs officials apply the *surtaxes* in a manner that duplicates reference prices (by imposing duties equal to the difference between invoice prices and some administratively determined price level).

Traders assert that, in practice, customs officials continue to apply reference price duty mechanisms for all of the above products and for many others as well, despite their supposed elimination. In one specific case cited to the team, an importer of construction materials stated that he stopped importing low-priced floor tiles from Italy in early 1997 because customs officials imposed a reference price specific to Italian floor tiles that would result in an ex-customs cost that is 20 to 30 percent above the current market price. According to this trader and many others, customs officials still commonly set reference prices for a host of products and then apply a combination of charges amounting to the difference between the reference price and the invoice price, penalties (supposedly for "dumping") that amount to 20 percent of the reference price, and the normal tariff charge based on the reference price.[21]

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[20] Here's how this works. Suppose the reference price is 270 CFA/kg, and the invoice price (the price at which sugar can be imported) is 2200. The importer pays duty on the basis of the 270 CFAF price. The imposition of the reference price thus provides added protection to local production when world prices are low.

[21] After our draft report was discussed in the Senegalese press, we were informed by a tomato paste importer that reference prices were in fact being applied to tomato concentrate imports; his imports were taxed at a rate of 160 FF per kg box, whereas his purchase price (invoiced and approved by the surveillance company hired by the GOS) was 130-140 FF. He has written to customs and to other Ministry of Finance officials, without effect. This importer reports also difficulties imposed on other grounds — that Senegalese "standards" are not met by his imports; he vigorously denies this and attributes the harassment to interventions by "local industrialists."

The uncertainties generated by the trade reforms underscore the lack of transparency in implementation. It is a telling point that among main players (importers and wholesalers) not only is uncertainty widespread, but so also is the sentiment that arbitrary decisions are made at the *douanes*.

Biases in Favor of Established Agro-Industrial Enterprises

Senegal's policies tend to favor established processing industries over importers, producers and new entrants. Rice seems to be the only exception. The CSS, for example, produces only about 65 percent of Senegalese sugar consumption from domestic cane. Much of its revenue comes from importing semi-refined sugar, which it markets after slight finishing. Competition in the consumer market is restricted by allowing only domestic refiners — i.e., CSS — to import semi-refined sugar. Tariffs on semirefined sugar are low, those on refined sugars high. Physical differences between the two types of sugar can be slight. To become a refiner (and hence eligible for import of semi-refined), you have to create a cane plantation. All of this buttresses the CSS dominance in the sugar market.

The tomato canneries enjoy similar preferences in importing. Only they can import highly concentrated paste, which is taxed at a low rate, as a semi-finished good. This imported paste accounts for an estimated 80 percent of tomato paste production. Everybody else has to import tomato paste as a final product, at much higher rates. This in effect restricts entry by importers in the tomato paste market.

The peanut *filière* is the most important case, given its weight in the economy. The GOS has been reluctant to promote greater competition in the groundnut sector, which is dominated by the publicly owned oil refinery SONACOS. Until recently, SONACOS enjoyed a monopoly on the purchase of groundnuts and on the sale of vegetable oil for household consumption. PASCO trade reforms liberalized the marketing and export of confectionary groundnuts, but SONACOS remains the only legally-authorized buyer of oil bearing peanuts because of prohibitions on their export. Reforms have also liberalized vegetable oil imports, but the tariff structure still grants SONACOS significant levels of protection.

Tariff preferences granted to SONACOS also allow it to import unrefined vegetable oil duty free which it refines and sells on the domestic market. The basic contradiction between SONACOS' role as the sole purchaser of the national oil-bearing groundnut production and the tariff concessions it is granted that encourage it to import unrefined oil from abroad, is, in theory, resolved by its commercial strategy: which is to sell high-priced refined Senegalese groundnut oil abroad, while it sells lower-priced refined palm or soy oil in the local market.

However, SONACOS' increasing inability to purchase significant quantities of local groundnuts calls into question the validity of this logic, as do the declines in peanut oil export volumes. In past years, before the liberalization of vegetable oil imports, the sale of refined imported oils yielded from a third to two thirds of SONACOS profits. When throughput is small, as it has been in most recent years, profits from refining and marketing semi-refined imports account for a very big share of total profits — e.g., over 70 percent in 1991. The reported minimal quantities of groundnut purchases during the most recent campaign indicate that SONACOS' situation is basically unchanged.

SONACOS has been up for sale as part of the government's privatization program. The sales effort has gone on for several years, but unsettled issues related to the organization of the *filière* have kept away serious potential buyers. One of the issues that seems <u>not</u> to have been part of the discussion is the tariff preference that generates so much of SONACOS' cash flow. This is a striking manifestation of the transparency problem.

There are of course arguments in defense of the policy preference given to agro-industry. These enterprises after all employ thousands of workers and provide markets for local farm production. The question again is lack of transparency. Traders and other potential entrants into agricultural production or processing are unsure of the rules of the game, hence hesitant. Also, the non-transparent protection provided by the tariff preferences discourages public debate over the validity of the chosen policy options. How much protection is justifiable, and for how long? And more important, is it good policy to sustain these enterprises by giving them what is in effect a monopoly over semi-finished imports of the product they process? How could government have undertaken to privatize SONACOS without first addressing its fundamental structural problems and deciding on the future of the preferential policies it enjoys?

Administrative Harassment and Judicial System Uncertainties

Private sector relations with government and its civil servants are generally poor. A survey done for a World Bank-sponsored workshop asked a sample of Senegalese entrepreneurs to specify those administrative practices that were most harmful to foreign investment. They listed taxes, customs regulation (especially export procedures), price controls, labor market regulations and weaknesses in the legal and judicial system.[22]

Complaints about taxes are of course universal. But what stands out in this workshop report is not so much concern over the *level* of taxes as over tax administration — the need to deal with numerous agencies and agents on tax questions. On price controls the participants called for a speedier treatment of their *dossiers* at the Ministry of Commerce, more dialogue between government and private operators and a reining-in of the Contrôle Economique, who are "stimulated by the system of monetary rewards" Slowness and harassment by customs agents was a main theme.

The harshest comments in this report are reserved for two factors that are particularly harmful to the investment climate: hostile civil servant attitudes, poor legal/judicial administration. To cite the report itself:

> "Deux points ont été répétés maintes fois au cours des discussions et sont devenus presque le leitmotiv des débats: à savoir la mentalité et le comportement des cadres de l'Administration envers le secteur privé, ainsi que la pratique administrative et l' application des dispositions législatives et réglementaires par les autorités publiques... Les participants à l'atelier étaient convaincus que le Sénégal avait peu de chances de devenir un pays vraiment attirant pour les investisseurs privés avant de procéder à des changements considérables concernant ces deux points...
>
> De l'avis des participants, la mentalité de fonctionnaire est sensé être caractérisé par la méfiance vis-à-vis des opérateurs économiques qu' il considère dans leur grande majorité comme

[22] Heinz Bachmann, *Implementing Deregulation and Promoting Foreign Direct Investment in Africa*, A Report on Six Workshops. Investment Marketing Services, Multilateral Investment Guarantee Agency, (World Bank Group), Washington, 1996, p. 64.

> fraudeurs et contrebandiers qui ne pensent qu'à léser l'Etat et qu'à se procurer des avantages illicites; en conséquence, il faut les surveiller et contrôler de prés."[23]

On the judicial system, the workshop report states:

> "Le deuxième point soulevé plusieurs fois au cours des débats concerne l'application souvent fantaisiste de textes législatifs et réglementaires. S'il est vrai que, dans tous les pays du monde, on observe une certaine différence entre pays légal et pays réel, cette différence parait être particulièrement marquée au Sénégal, où la non-observation des lois et réglements par l'Administration parait être particulièrement fréquente. Pourtant, rien n'effraie plus un investisseur étranger que le manque de transparence, de sécurité et de prévisibilité crée par une telle attitude qui fait qu'il ne peut jamais être sûr que les textes légaux qui lui ont été communiqués par l'Administration...sont effectivement appliqués. Le mépris continuel du statut d'autonomie de la Zone Franche Industrielle (ZFI) par les ministères techniques n'était qu'un exemple cité à l' Atelier qui demandait qu'une discipline plus rigoureuse soit imposée à l'Administration dans l'application de ses propres lois et règlements....

Administrative and judicial system constraints are best grasped with the help of specific examples. We consider in turn problems of customs administration and in labor market deregulation.

Harassment in Customs Administration

Customs have long been a rich source of entrepreneurial headaches. Complaints of harassment are very numerous, though it is of course hard to know what weight to give to these perennial complaints. It is in any case clear that the complexity of the customs system, the heavy taxes levied and the numerous forms and declarations that have to be made are negative influences on the business climate and divert management energies from more productive tasks.

A recent World Bank-sponsored study of the horticultural sector (by T. Aube) gives abundant detail.

The study notes that <u>the "temporary admission" system intended to facilitate imports of in inputs for exporters is not working.</u> To benefit from this system, exporters have to be approved by the Customs authorities, product by product, following a detailed study. This study, and resulting approval of the exporter, can take months or even years. Moreover, once approval is granted, the system is applied with extreme inflexibility. The exporter has to separate inputs that are under temporary admission from the rest of his stock, and they must be used only for immediate export production. This requirement can be exacting; for example, packaging materials usually have to be stored for gradual use. Failure to do all of this just right can be costly. Exporters are often heavily fined following the frequent control visits by customs officials.

<u>The "escort douanier" system remains in place.</u> This means that a customs agent must accompany trucks headed for frontier regions. The objective is to prevent illegal domestic sale of TVA-

[23] Ibid, p. 64.

exempt goods. The escort costs 50,000 to 80,000 CFAF per expedition. Since this charge is the same whatever the number of trucks, it falls most heavily on small exporters.

Numerous small fees are imposed — a statistics tax (declaration *Gainde*) of 1700 francs per export, a treasury tax of 1/1000, and others. Importers pay a 5 percent *ad valorem* tax in the form of a "customs stamp" fee (*timbre douanier*). They can avoid the tax on goods to be /reexported if they so declare at the time of import. But if the declared goods are not in fact reexported, very heavy fines are imposed. To avoid this risk, many importers pay the stamp tax even though they plan to reexport to goods in question. (Similarly, the license fee [patente] levied on each industrial establishment, for which exemption is possible, is often paid to avoid the administrative costs and frustrations of seeking exemption.)

Exporters say that time spent by customs agents is generally charged at overtime rates even when the controls take place during regular working hours.

Obstacles to the free movement of goods persist. At the road barriers known as the *"guerite de Bargny,"* truckers carrying fruits and vegetables (and presumably other goods) pay fees to inspectors. The legal basis for this informal taxation and control is not clear. Apparently, government has decided to eliminate this obstruction to trade, but it still exists, raising the financial and labor costs of internal distribution and exporting. Some large exporters have obtained exemption from these levies, but small operators (horticultural and other) pay. It is the same with inspections carried out by police along the roads; stops are frequent, opening of doors of refrigerated trucks is often required, and in all cases delays tend to reduce product quality. Problems of this sort are especially severe for movement from the southern regions.

Inadequate Judicial Framework for Labor Relations

Diagnoses of private sector constraints invariably focus on problems in the Senegalese labor market resulting from a legal system that grants a very high degree of protection to permanent employees. The PASCO reforms targeted a major aspect of this problem by sponsoring a new law that allows employers to lay-off permanent workers for economic reasons such as a down-turn in business. The law sets down a required procedure of employee consultation before employers can fire people.

The Team's interviews with employers of various sizes, however, reveal that there is unanimous agreement that this measure has not wrought any improvement in the labor market. One reason is that employers find they have little reason to even consider laying off personnel under the new law. They complain that it specifies a costly and time consuming process of notifications and consultations involving employees and the *Inspection du Travail* which takes at least four weeks.

A more important reason, however, is that the detailed requirements specified for consultations, determining the exact order of layoffs and proving that they have acceptable "economic reasons" for layoffs leaves them vulnerable to subsequent litigation. Since Senegalese employers have little confidence in the judicial system as an equitable or predictable vehicle for resolving labor disputes, they go to great lengths to avoid litigation. They complain that trials usually lead to decisions in favor of plaintiffs regardless of the merits of individual cases.

Thus, there appears to be little fundamental improvement in labor market flexibility resulting from the PASCO legislation. Businesses are still very reluctant to add permanent employees and tend to hire temporary workers who do not enjoy the same level of job protection and who come with lower social charges.[24] In some sectors, employers admit to hiring their entire non-skilled labor needs on a temporary contractual basis — sometimes even by hiring the same individuals repeatedly.[25] Furthermore, temporary manpower firms have come into the market to supply such employees to larger industrial sector firms. Much temporary labor is also hired under schemes resembling traditional *tâcheronnat* arrangements.

It would be a mistake to attribute these deviations from liberalization simply to "lack of political will" or "lack of commitment." The GOS has shown plenty of commitment. And in any case all governments sacrifice some economic objectives (output growth) for other goals, such as national security, self sufficiency, regional and social equity, political stability. Moreover, whatever government's "will," its actions are constrained by limits in its capacities.

The most pertinent explanations for the persistence of constraints on the private sector seem to be the following.

- <u>Dirigiste traditions and "instincts" run deep in Senegal</u> as in many countries. This is coupled with widespread conviction that markets do not work for structural reasons or because conspirators rig markets at every turn. Many, probably most people believe that what counts in liberalized economies is who you know and not how enterprising or hard-working you are. All of this creates a propensity for government to intervene at the first sign of market apparent market failure. It also sustains a general propensity for state agents to favor state goals (e.g., tax revenue) over encouragement of investment and enterprise. (One recent example: the government's decision to deny equipment purchased via rental payments [*crédit bail*] the same favorable tax treatment granted to direct purchase.)

- <u>Failure to confront fundamental policy issues plays a role</u>. How much is government prepared to pay to protect domestic rice producers? Is government ready to strip SONACOS of its access to duty-free semi-refined imported oil at a cost of a thousand jobs? (Nobody will buy SONACOS without this privilege for anything near the government's asking price.)

- <u>Senegal is a soft state.</u> Political considerations win out over economic rationality more than in stronger political systems. Politics and tradition force the state to move slowly even against known corruption and incompetence. For the same reasons, many anti-free market practices (e.g., roadblocks) are not easily rooted out, even when they are prohibited by law. Every regulation, even the most legitimate, is a source of harassment and corruption, and while Senegal's administrative machinery is highly structured, the public manager's span of control is in fact very limited.

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[24] Most of the firms interviewed by the Team had from 3 to 5 times as many temporary as permanent workers.

[25] One firm reported that it payed temporary workers significantly more than its few permanent workers — which it tended to use for non-critical tasks. The firm's manager reported that he was able to rehire good temporary workers on roll-over basis with the tacit approval of the Inspection du Travail, since all parties were agreed to the practice.

- Senegal's decision-making procedures are often imperfect. It is not just that politics are omnipresent. The policy process itself is weak. Economic analysis is often neglected. Donor ideas and donor money complicate matters enormously.

STRUCTURAL CONSTRAINTS REMAIN STRONG

Structural obstacles to growth are rarely removed in one swoop. Senegal remains a high cost country despite the cost-cutting and efficiency-enhancing effects of devaluation and liberalization. Its wage levels are higher than those of most of its regional competitors and much higher than some non-regional competitors. Costs of labor, water, energy and transport remain relatively high as shown in Table 6.

TABLE 6
INPUT COSTS, IN CFAF, 1995

	Senegal	Côte d'Ivoire	Burkina Faso	Benin	Togo	Mali	Niger
Electricity (medium load KW/H)	55.8	37.1	51	41	53	55	55.3
Diesel Fuel (litre)	300	270	312	135	195	275	265
Water (industrial rate)	572	293	1,026	471	219	218	319
Road Transport (domestic, T/km)	33.6	31.2	55	33.5	31.6	33.6	42.3
Air Freight (+ 500 Kg):							
- France	1,785	2,140	2,090	2,110	2,140	1,930	2,025
- US	2,580	2,350	3,150	2,470	3,100	3,095	3,170
Telephone							
- local (3 min.)	50	29	30	66	25	51	38
- France (1min)	1,330	1390	2,262	1,705	1,500	3,060	1,800
Monthly Wage (laborer-ouvrier)	56,563	53,039	33,799	29,692	29,520	29,775	31,591

Sources: Water rates from *Entreprendre* (Dakar), #13, Janvier-Février 1996, p. 12. Other figures from UMEOA.

The GOS has attacked this problem of high input costs. Real wages have fallen sharply since the devaluation. Shipping sector reform was part of the PASCO. The major public utilities are being privatized, which should lead to higher productivity in those sectors and eventually to lower cost supply. But high-impact reforms can be introduced only slowly, for social and technical reasons.

WEAK PRIVATE SECTOR SUPPORT INSTITUTIONS

All segments of the private sector share certain needs for institutional support: a generally friendly public administration; associations that can lobby and represent private sector views in regulatory agencies; access to financing; help in key areas such as access to export markets and imported inputs. But each of the different segments in a highly diverse private sector such as is found in Senegal requires special kinds of institutional support. The larger firms, sometimes multinational and usually expatriate-owned, have the fewest needs. They are capable of providing internally many of the inputs that smaller enterprises have to look for outside, and they do pretty well in defending their interests in the political arena. For this reason, we concentrate here on the SME segment, with some attention to informal sector microenterprises.

Public Sector Support Agencies

The SMEs need public and private support at affordable cost to strengthen their competitiveness and their growth. In recent large-scale surveys of entrepreneurial opinion (more than a hundred SMEs and business associations were interviewed) the following list of priority support needs emerged.[26] It is in line with the diagnoses of outside analysts.

- Management advice and ongoing assistance;
- Support for export promotion;
- Access to information about commercial matters, clients, suppliers, other partners;
- Help with the preparation of business plans, market analyses, project development, *dossiers* for loan submission;
- Help in acquiring financing, especially for capital investment and working capital; and
- Help to promoters of new small enterprises.

There is no shortage of support institutions created to meet these needs and to confront the surrounding enabling environment problems. At least a dozen entities exist, most of them in the public sector and some dating from Independence. Donors have financed at least five projects in recent years, which cover much of the same ground. Annex 2, Table 2-3 lists the institutions and projects and shows the specific types of support activities they are supposed to provide.

Almost everybody we talked deplored the existing situation, giving failing marks to virtually all the institutions in terms of their record in meeting private sector (SME) needs. Private sector operators express a general skepticism the face of what they view as a bewildering institutional stew of organizations that gives them little or no sustenance.

The failings of these organizations have been described in numerous recent reports.[27]

[26] M. Mbengue, background paper prepared for this study.

[27] See the summaries of recent private sector-related reports prepared for this study, and the analysis of M. Mbengue on which the text draws heavily.

They are so numerous and have so many overlapping mandates that potential clients are distracted, and resources wasted. Some examples:

- In export promotion, the Chamber of Commerce, the CICES and the Trade Point have similar aims. Each provides market information, several organize trade missions.

- The Chamber of Commerce, SONEPI and the UNDP's project called Programme Cadre II (PC2) offer feasibility studies and help with enterprise formation. The CAEE and PC2 do sectoral studies, sometimes overlapping. The GRCC and the CAEE both work to improve the policy climate; they occasionally work similar problems, as in the case of taxation. The PC2 financed research (on bissap) at the university, while the Institute of Food Technology (ITA) has been working on this same problem for the same client (SOCA).

Many private sector support institutions are arms of government more than servants of the private sector. Government ministries request studies from them. They are sometimes housed in ministries — for example the CAEE is located (organizationally) in the Primature and the PC2 (both organizationally and physically) in the Finance Ministry. Ministers appoint their staffs, who are generally civil servants without private sector experience. So-called private sector representatives who are appointed to the Boards of these organizations are often not truly representative of the private sector but are politicians. In general, the private sector clients of the business support entities do not view them as their own and have little confidence in them.

They provide poor service. The Guichet Unique — which was created to accelerate investment approvals — frequently takes two months the prepare an *arrêté* of approval. Their staffs are thin in number and lack the detailed sectoral and industrial experience that is required if they are to provide credible management advice.

They have serious internal management weaknesses. Poor service to clients is a reflection of deep problems of internal management. These agencies behave like government departments, heavily bureaucratic and ponderous. Authority is concentrated in the hands of the Director-General, who often travels on business or political missions. During these long absences, operations tend to be put on hold. Skilled staff are few in number and often poorly trained. Low, noncompetitive salaries encourage high job turnover rates. At SODIDA, for example, the staff of 18 consists of 13 administrative (support) people, 2 technicians and only 3 cadres. At SONEPI and many others, top management turns over frequently.[28]

Public sector support institutions never die. They are fed from the state budget, resuscitated from time to time with donor money. Little capacity building occurs, because of low, uncertain financing and staff turnover. But their presence crowds out private consulting associations and consulting organizations that could provide the needed services much more efficiently. Internal organizational reform seems extremely difficult.[29]

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[28] The Chamber of Commerce has 73 employees, of which 8 are skilled senior staff (*cadres)*. It is visited by 300 aspiring entrepreneurs a year. One staff member is available to handle these requests to start businesses. For 400-500 requests a year asking for help with access to lines of credit there are two staff.

[29] In 1986 the ex-CSCE and the Trade Fair merged to form CICES, in order to cut plethoric numbers in overlapping activities. Two years later the disemployed were replaced by larger numbers of less well trained people, hired on the recommendation of highly placed political figures. All suggestions of merger and staff reducing economies are greeted

The incapacity of the public sector and donor-assisted business support institutions is clearly a significant constraint to private sector expansion, at least for SMEs. The picture is brighter for microenterprises and the informal sector. One private agency, ACEP, is providing financial and management advice to microenterprises in an apparently efficient manner. It has antennae throughout the country, a growing portfolio of which half consists of loans to women, and an admirably high repayment rate. It will benefit from the new initiatives in microenterprise lending that are being generate by most donors.

Some promising developments are under way also for the SME sector, notably the new initiatives of the Private Sector Foundation (FSP). After a slow start during its first year, and some missteps, this World-Bank financed body is providing financing for consultancy services, drawing more effectively on the private resources available, and it is exploring new avenues for help in export promotion and in provision of business services.[30]

A Lack of Appropriate Financial Institutions

Virtually all analyses of private sector development constraints emphasize the lack of financial services for microenterprises and SMEs. Business owners and entrepreneurs also complain loudly about a "lack of credit" and the inflexibility of the Senegalese banks in enforcing onerous collateral requirements for any credit they extend.

Surprisingly, little hard information exists that would help analysts sort out the validity of these observations. The most complete existing studies[31] have not attempted to make any quantitative estimates of the supply or demand for credit among different segments of the private sector. Nor have they attempted to analyze the pipeline flow of the many existing private sector lines of credit and guarantee funds that various donors have established to support lending to SMEs and microenterprises. Another area of doubt is the profitability of servicing different types of private sector clients. One reason that these issues have not been addressed is that the information needed is difficult to come by. Donors tend to part with information on the utilization of lines of credit with some reluctance and what is available is often quite old. Similarly, private sector banks and financial NGOs are understandably reluctant to reveal information that may be sensitive to their clients and affect their own business strategies. An upcoming study to be commissioned by USAID under the EAGER project may help fill in some of these holes, but with the information available at present it is important to note that assessments of problems in the financial environment surrounding microenterprises and SMEs must be based largely

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with the response: politically impossible.

[30] The FSP has a $6.3 million credit from the World Bank. It began operations in June 1996. As of May 1997 it had received 156 requests for assistance from SMEs and professional associations. It had financed 193 consultancies, on a cost-sharing basis. One mistake that is now being remedied was the decision to do all awards via competitive bidding, even for very small contracts, and to require World Bank approvals for all awards. This resulted in high transaction costs and very slow response time.

[31] Notably: Sall Consulting, "Etude sur les Entraves au Développement du credit au Sénégal," Groupes de Reflexion sur la Compétitivité et la Croissance, 1996.

on anecdotal information and the educated opinion of entrepreneurs and financial institution managers. While acknowledging this caveat, it is still possible to make some preliminary observations and hypotheses about why entrepreneurs find it so difficult to obtain credit.

One important observation for which there is widespread agreement is that the proliferation of donor supported lines of credit and guarantee funds has not had much impact on the private sector. This is somewhat surprising given the extent of the effort many donors have made to channel funds into vehicles to support lending to SMEs and microenterprises, the most important of which are detailed in Annex 2, Table 2-4. These include the World Bank's APEX fund, various instruments set up by the West African Development Bank, the Economic Promotion Fund, a joint European Development Fund and Caisse Française de Developpement credit line, as well as smaller bilateral lines of credit set up by the Swiss and Belgian aid agencies. In addition to these publicly supported sources of financing, Senegalese banks have come a long way in strengthening their balance sheets, are highly liquid and should be capable of making more loans than they have been in the recent past.

Yet, despite these developments, Senegalese entrepreneurs and would-be entrepreneurs continue to proclaim that they lack access to credit. While this point is indisputable, the reasons behind it are less clear. Entrepreneurs reproach Senegalese banks for their bureaucratic-like approach to business lending, which relies heavily on collateral as the critical factor, rather than on the profitability of the proposed project. Bankers, on the other hand, complain about the poor quality of business plans and financial data accompanying loan applications.

The lack of access to finance among small enterprises and appears to be grounded less in the supply of funds and refinancing capacity of lenders than in a lack of appropriate institutions that are able to serve as intermediaries between these sources of finance and borrowers. The credit available through most of the donor-supported financial facilities mentioned in Annex 2, Table 2-4 must be actually disbursed through Senegalese banks and NGOs. Unfortunately few Senegalese banks have personnel with experience in SME credit analysis or an organizational structure of the type that would make it profitable to service an SME clientele — much less microenterprises. Consequently, they thus have little enthusiasm for using donor-supported credit lines or guarantee funds to expand their business in this direction.[32]

Unfortunately, the universe of Senegalese financial NGOs is also fairly undeveloped. A recent survey of savings and credit schemes cited in a recent World Bank study found 30 active programs, but only 3 that had any significant capacity to make large volumes of loans or that had prospects for achieving financial sustainability.[33] Of these three, only the *Alliance du Crédit et de l'Epargne pour la Production* (ACEP) has demonstrated an ability to successfully manage its rapid growth and access outside sources of financing, such as the West African Development Bank (WADB) line of credit, that require interest payments. By September 1995, ACEP had 3,471 outstanding loans for a total of 2.5 billion CFA. With an approach guided by a branch level profit center philosophy and a very minimalist approach to credit analysis and disbursement procedures, ACEP is probably the closest of any financial institution in Senegal of offering a viable institutional model for serving a predominately microenterprise

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[32] The CBAO has made some efforts to experiment with an SME "lending window" in the Medina, but this effort remains relatively minor and its long term profitability is not clear.

[33] Leila Webster and Peter Fidler, *The Informal Sector and Micro-Finance Institutions in West Africa*, World Bank, September 1995.

and SME clientele. The other two NGOs receiving favorable mention in the World Bank report, the Catholic Relief Services Village Bank Project in the Nganda area and the network of savings banks operated by Crédit Mutuel du Sénégal, seek mainly to recirculate internally generated savings; they would have difficulty managing any rapid increase in lending financed through external sources.

Weak Business and Professional Associations

The proliferation of GOS and donor-supported private sector support institutions and programs in Senegal reflects an underlying problem: the incapacity of Senegalese business and professional associations to provide useful assistance to their members. While the numerous projects and institutions that intervene in such areas as export promotion, business matchmaking, training, and private sector policy analysis may be, to some extent, preempting the natural role of Senegalese professional organizations, it is clear that serious problems related to resource mobilization, human capital and institutional organization are preventing most of them from taking a more active role in promoting private sector development.

At the federation level, the Senegalese business world is split into rival factions dominated by the Conseil National du Patronat du Sénégal (CNP) and the Conféderation Nationale des Employeurs du Sénégal (CNES), each of which regroup competing sectoral professional organizations regrouping businesses in the formal sector. In addition, to the above formal sector organizations, the recent emergence of UNACOIS as a business organization representing informal sector traders and micro-entrepreneurs is also a very significant phenomenon. In many ways, UNACOIS, with its 70,000 members and national geographical coverage, remains one of the best organized and most representative professional organization in Senegal.

These federations, at the request of their member professional organizations take major roles in lobbying the government on policy issues, representing their membership in collective bargaining negotiations and discussions on regulatory matters with public institutions and organizing general seminars and training events. Within the formal sector, most concrete firm-level support functions tend to be located at the next level below the federations, which is occupied by sectoral professional organizations (usually called by the generic term *syndicats professionnels*). Unfortunately, these *syndicats* are, as a rule, resource-poor organizations with little money, institutional capacity or organizational vision to engage in anything other than punctual interventions on isolated occasions where there is widespread consensus among their members on a particular subject.

One of the strongest *syndicats professionnel*s is GAIPES, which regroups 34 fish processing firms of various sizes. GAIPES has an annual budget of under CFA 50 million ($90,000) provided by member dues of CFA 1 to 1.5 million, which supports one full time General Secretary and a modest office. It provides a lobbying voice for its members on administrative matters and helps organize professional meetings, but it is unable to take any sort of active role in helping its members with potentially useful studies, common marketing initiatives, or promoting technology transfers. Most other sectoral professional associations are even weaker.

Among SMEs, the lack of functional business associations is particularly notable. Given this lack of viable organizations, some SMEs have come together on something of an *ad hoc* basis to begin to form their own organizations. In the SONEPI industrial estate, SMEs have banded together to form the Regroupement Economique des Entreprises Industrielles et Artisanales de la Zone SONEPI (REEIAS), which is establishing a mutual savings and credit union to help provide members with credit and guarantee funds to access other sources of financing. REEIAS is also negotiating with public authorities to resolve disputes on issues such as land titling in the industrial zone. Initiatives such as these, which represent ground-level attempts by SMEs to attack problems collectively, are an encouraging sign. However, groups such as REEIAS are also very weak and suffer from the same problems of insufficient funds and organizational expertise that plague other professional organizations.

CHAPTER FIVE

PROGRAM IDEAS FOR USAID CONSIDERATION

The terms of reference for this study specify three main objectives: to analyze the private sector response to the policy reforms of recent years, identify the principal constraints to faster private sector growth and indicate how and where USAID might most effectively contribute to faster private sector growth. The third part of the mandate is addressed in this final section.

It is worth emphasizing at the outset how critical it is for Senegal's economic future that the private economy benefit from all the nurturing it can get. The GOS has stated many times that the private sector has to be the engine of growth, and this is becoming the official ideology, even if it is not always reflected in public policy and administrative behavior. But not everybody is truly convinced that Senegalese entrepreneurs have the competence and energy to really bring about economic transformation. This is so despite numerous examples of cases of outstanding achievement. Mamadou Dia, in his recent work for the World Bank,[34] provides some examples. But a clearer picture of the potential of Senegalese entrepreneurship can be seen in the box below, which tells the story of Babacar Ngom and SEDIMA, his poultry operation. This story illustrated the dynamic growth that a properly encouraged private sector can bring.

SEDIMA — Poultry Farm and Materials Supply Company

When Babacar Ngom left the Lycée Technique in 1976, nobody could have guessed that he would become a farmer, much less a chicken farmer. He had studied (to the brevet level) to be an automobile mechanic, and there were jobs open to him. He was born and raised in Dakar, where his father owned a night club. Nobody in those days left town to farm.

But Babacar didn't like his final year at school. Although he was a good student, he did not pass his brevet exams. What he did like was birds. He visited the Centre Avicole de Mbao, and decided to try his hand at raising chickens. On the basis of some elementary pamphlets on chicken farming that he got at the French Embassy, he started with 25 chicks, right in his family's house.

He stayed there for one year, raising chicks, selling eggs and chickens and adding to his herd until he had 400 birds. He then bought his first farm land, located about 20 km. outside of Dakar. He moved out to the farm, and (despite his family's disapproval — they were ashamed that he had chosen this path) he set to work as a dirt farmer. For the next twelve years he learned the business, and slowly expanded. By 1988 his stock had grown to 5,000 roosters and 1,000 layers (hens). He did almost everything by himself during those years; even as late as 1988, he had only five employees.

[34] Mamadou Dia, *African Management in the 1990s*, World Bank, 1996.

At this point, he ran into supply problems. His one-day-old chicks, all imported, were expensive. More important was the high cost, poor quality and low reliability of his feed supply. There were only two feed sources in Senegal in the late 1980s, Sanders and SSSP. They had a comfortable market-sharing arrangement, were expensive and unresponsive, and had little contact with farmers.

So Ngom started growing his own feed, which he produced for half the cost, and with better quality. This allowed him to buy his first machine, a 500 ton capacity feed cleaner (broyeur-nettoyeur). Then he turned to the chick supply problem. Until 1989 one cooperative had a monopoly on the supply of one day old chicks. The coop was in difficulty and couldn't meet his needs. Ngom asked government for the right to import on his own. At that time his was the only sizeable private commercial poultry farm in Senegal; it had 8,000 birds. Government granted him the necessary import authorization, but on condition that he become a fully incorporated formal sector enterprise. So he set up his company, the Société de Distribution de Materiel Avicole (SEDIMA).

Through this period he was gradually investing in new land and machines to expand his feed production and his poultry operations. He then began selling feed and also imported equipment and other poultry-related supplies. By 1991 he was also importing 19,000 chicks a week.

At this point a competitive threat arose. Paradoxically, this came as a byproduct of the government's privatization program. One of the first transactions was the leasing of the Centre Avicole de Mbao, a state-owned hatchery. The lessee was none other than the French company which formerly had exported one day olds to the (now defunct) cooperative. The new managers were supposed to install a new 40,000 unit capacity hatchery, enabling cheap local production of one day old chicks. Ngom, meanwhile, would have to continue to import his chicks at a higher price. Moreover, the Mbao operation received concessional financing from the Caisse Française de Développement.

He decided therefore to produce chicks himself. In January 1992 he installed a hatchery with a capacity of 30,000 chicks a week, and six months later another, giving him capacity to produce 60,000 one day old chicks a week. These investments cost CFAF 200 million. In January 1997 he added another hatchery, giving a total of capacity of 150,000 chicks a week. This last investment is the first which he financed by borrowing (at a local commercial bank). The previous hatcheries and all other investments were financed out of earnings.

SEDIMA now has full corporate status. It produces 8,000 tons of feed annually, and production capacity of 150,000 one day old chicks a week. It has imported two boatloads of US maize (8,000 tons each), one in 1996, one in 1997. It imports and distributes a full range of poultry farming inputs. It has established selling outlets throughout the country, and exports widely in West Africa. Its sales were roughly CFAF 3 billion in 1996. Sixty permanent employees are at work along with 130 temporary employees. Sixty percent of the company's volume of business comes from feed sales.

The competition has been beaten off; Mbao is in financial difficulty and hardly operational. Ngom is integrating his business further. He now produces his own eggs for breeding; they were formerly imported. He is modernizing his management by use of consultants and highly trained staff, and has hired a French specialist to work on his latest extension into breeding egg production. His company is one of three biggest poultry operations in West Africa, along with Darko Farm in Ghana and SIPRA in Côte d'Ivoire.

Mr. Ngom still doesn't operate on a fully even playing field. SONACOS is the only national producer/seller of peanut cake, a basic input into feed production. At the same time, SONACOS owns shares in a competing feed producer that has 25 percent of the local market. As SONACOS's output of peanut cakes is shrinking as its milling throughput shrinks, it is becoming increasingly unwilling to supply peanut cakes to feed grain producers like Ngom, who are in competition with its allied feed operations. It has raised prices and rations its cake and there is talk that they will soon stop selling peanut cake altogether. SEDIMA, with 25-30 percent of the feed market is denied access, and may have to rely on more expensive imports of soya cake.

If the past is any guide, Mr. Ngom will overcome this problem. After all, he has made great strides in doing for Senegal what Herbert Hoover promised to do for America 70 years ago: put a chicken in every pot. By his innovations in seed production, his vastly increased sales of lower-cost chicks, his promotion of poultry equipment and supplies he has brought about a large (unmeasured) expansion in poultry production and consumption by small farmers and even urban households.

Mr. Ngom didn't start out with the intention of improving Senegalese health and welfare. Like most entrepreneurs in market economies, he started his business and expanded it because he liked it and because there was money to be made. Moreover, there was no long-term planning; obstacles were overcome as they were encountered and opportunities seized as they arose. In 1976, or in 1989, there was little indication that what has been done in poultry was possible. Poultry-raising had been identified innumerable times as a potential growth sector in planning documents and economic studies. But little had happened. The Mbao Poultry Center had been set up by Government to produce one-day-old chicks and stimulate the poultry industry. It was a clear failure, and couldn't even find a private buyer in the 1980s. Its most productive result turned out to be the fact that young Babacar Ngom visited it in 1976. It took his drive and energy and competence to bring to reality what was for so long simply potential.

GUIDELINES

A number of guidelines have shaped the proposals set out below.

First, though all the suggested programs are linked to one or several of the constraints identified in Chapter Four, not all the constraints are directly addressed. For example, much weight is given in earlier analysis to the ambiguities and slippages in implementation of the policy reforms since 1994. But we do not believe that USAID should move toward further conditioned policy grants aimed at improving implementation. In our view, this is best done by the World Bank, if it is to be done at all, which is debatable. We suggest instead a longer-term approach to attack this constraint — research and public education in market economics.

Second, the proposals should reflect expressed needs of Senegalese private operators, as determined by our interviews, and by review of related documents — reports of workshops, for example.

USAID/Senegal is taking very seriously the new prescription in aid circles — that donors must listen much more to local views and frame their assistance strategies less on their own preconceptions and agendas. Therefore, the six recommended program ideas are based on proposals put forward to us by Senegalese active in the private sector. Some of these have been reshaped of course in the light of our experience elsewhere.

Third, we obviously do not include all the proposals and suggestions made by local actors. There are simply too many such proposals in circulation. Some don't seem appropriate for Senegal. Others are too sketchy to be sure. Some that are generally attractive do not seem appropriate for USAID.

Several of the uncertain proposals have been put forward by the Private Sector Foundation. One would provide classroom training in export marketing. This is an unusual approach, one not in line with current orthodoxy, which stresses cost-sharing consultancies, foreign visit and other action to bring importers and potential exporters together. The approach may be justified because of special circumstances in Senegal, but this is not self-evident.

Another uncertain proposal is the creation of Business Service Centers — something like storefront operations that would provide very small enterprises with computer facilities, training programs and advice on management, marketing, packaging of loan requests. Such Centers have been created in many countries, including many in Eastern Europe. A priori, they raise a number of questions, about the quality of services that can be provided, their sustainability, and their crowding out effects on private sector service providers. The are in effect subsidized competitors for emerging private consultancies. But we weren't able to find any evaluations of these kinds of programs in other countries, and again they may be right for Senegal. So judgement has to be tentative.

Finally, the limits of the program agenda stated below should be clearly understood. These are program ideas, not developed program proposals. We have identified areas of possible action we think merit further consideration and development should USAID decide to include a private sector component in its new five year programming exercise.

UNDERLYING ASSUMPTIONS

<u>USAID recognizes that economic growth is central to the achievement of all objectives</u>, and is in agreement with the GOS policy orientation that underscores the primacy of the private sector in the growth process. As is said often, the private sector has to be the primary engine of growth in Senegal, as elsewhere.

<u>The U.S. has a special contribution to make to private sector development in Senegal</u>, because of its particular entrepreneurial orientation and its vast experience with privatization of services. Most U.S. "public" utilities have long been private. And in addition to vast experience with subcontracting at the federal level (John Glenn once remarked that what made him most uneasy about his spacecraft was that it had inputs from 50,000 contractors), U.S. cities and counties contract out a large and growing proportion of their service delivery.

<u>The purpose of assistance is to remove obstacles to private sector growth that arise from policy or market failures.</u> The aid programmer's first question when contemplating an intervention should be: why aren't

private sector actors doing this themselves? A related question should be: if we do this, will it prevent private actors from doing it themselves?

Assistance to private sectors should not seek to determine the future path of private sector growth. Investors and entrepreneurs will discover where Senegal's economic future lies. (See the story of Babacar N'Gom in the Annex 3.) USAID's task is to make the process of discovery faster and better.

Aid will be declining over the coming decade, and new institutional forms and vehicles of cooperation between rich and poor countries will emerge. This makes especially important the sustainability of new programs, and their adaptability to new forms of aid relationships. Programs with clearly finite time horizons should aim at results that strengthen the forces of liberalization and democracy, results that increase the likelihood that market-oriented development will survive and spread.

Lots of aid donors are working to help the private sector in Senegal and there is already considerable duplication. Any USAID interventions should focus on neglected problems and approaches.

RECOMMENDATIONS

Create New Opportunities for Senegalese Entrepreneurs

Throughout the industrial and developing world one of the most striking trends in recent years is the disaggregation of production and service-providing organizations — the creation of smaller units, use of consultants, subcontracting of peripheral activities. This trend is very much in line with Senegal's needs; its supply of entrepreneurial energy and talents is greater than effective demand for them.

One set of reasons for sluggish growth of demand for these energies is the large role of government as provider of services and the fact that government (like larger scale private Senegalese companies) does in-house (*en régie*) what could and should be divested or contracted-out — maintenance and repair, data processing, research and studies, metering, billing, and many non-core activities.

Change is already under way. The Ministry of Public Works has sold off almost all most of its road maintenance equipment, and what it used to do *en régie* is now contracted out to private construction/building/road maintenance operators, some 2,000 who are now said to exist. The Commune of Dakar contracts for waste removal. The shrinkage and quasi-bankruptcy of Dakar-Marine has released fresh talent to the private sector. Many private sector firms now contract-out much of their maintenance and repair. The box below on MTI provides an example of the dynamic response that is possible from the private sector when the public sector is willing to step back and allow a reallocation of resources from SOEs to SMEs.

MTI Maintenance Industrielle

During the early 1990s, Papa Touré, the Commercial and Technical Division Chief of the publicly owned marine maintenance and ship repair firm Dakar Marine was getting increasingly frustrated at his job. Lengthy internal approvals made it hard to complete simple tasks like purchasing spare parts needed for repair jobs. Workers had inflexible hours and often had to be cajoled to take on work, which meant that sometimes Papa had to pick them up and transport them to and from work and buy them meals to be sure they would actual complete tasks they had been assigned. Expensive pieces of equipment were left unutilized and in poor states of repair. With the impending privatization of Dakar Marine, which had been pending since the mid-1980s, still unresolved, Papa and his friend Moctar Mbengué, who was Dakar Marine's Administrative and Financial Director, began thinking about leaving the troubled parastatal to find a firm where, as they put it, "they could actually work."

They saw their chance in 1993 when the Dakar Industrial Estate (SODIDA) decided to put out a public call for bids to operate its central machine workshop after it had determined that the equipment in the shop was operating far below capacity and that it was too difficult for the estate to manage. The two friends decided to submit a bid which was accepted. They immediately resigned from Dakar Marine, and used their savings (accumulated in 15 years of service) to found MTI, which began operations in 1994 out of the SODIDA workshop. Messrs. Touré and Mbengué radically changed the orientation of the workshop; instead of providing low-cost electrical and machine repair services to firms established in the SODIDA estate, they provided high-quality and high-priced industrial maintenance work targeting the marine sector, where they both had many good contacts, and larger private sector firms. They rapidly developed a focus on the repair and maintenance of electrical motors and generators, industrial boilers, and, to a lesser degree, general mechanical repair.

In 1994, the firm's first year of operation, MTI realized CFA 80 million in revenues—which was about CFA 30 million above what they had anticipated. Messrs. Touré and Mbengué reinvested all their earnings in second-hand equipment (mainly in auctions following the liquidation of various SOEs and the sale of public works equipment) to add to the stock of rented machines from SODIDA workshop. By early 1997, approximately 40 percent of the firm's capital stock in machines was owned directly, with the rest being rented from SODIDA. MTI's revenues have grown to just under CFA 200 million with 20 permanent employees and up to 120 temporary employees. The firm's owners have recently purchased two trucks and a mobile workshop to service sites beyond Dakar and have signed a contract to maintain the electrical system of the University in Saint Louis. They plan to purchase all the equipment they are renting from SODIDA over the next several years.

But MTI is a success is not just on the financial level. Mr. Touré notes that with a much smaller staff, they can conduct naval repair jobs in one-third the time that it took for Dakar Marine to do a similar job — mainly due to faster response in purchasing inputs and their more flexible work schedule. In particular, they express great satisfaction with the improved work environment from what they were accustomed to at Dakar Marine. They take great pride in the degree to which they consult their workers and involve them in management decisions, such as how to schedule jobs and allocate work internally, and in the team spirit that has resulted. In contrast to Dakar Marine, they are able to field shifts virtually around the clock if need be to complete a job and can send workers to sites all over Senegal.

The MTI experience is illustrative of a number of important themes for private sector development in Senegal:

The opportunity cost of sustaining moribund SOEs on life support systems is significant. The privatization of Dakar Marine has been an explicit target for over ten years. By the time MTI's founders resigned in 1993, it was virtually non-functional. The enterprise has been limping along during this period with grossly underutilized capacity in both human and material capital at considerable opportunity cost to the taxpayer in terms of operating subsidies and forgone privatization revenues and to the economy in terms of preempting more productive uses of its machines and employees. The example of MTI shows the potential of private spin-offs to step in and fill the gaps in economic tissue left by terminally ill SOEs. In addition, it is instructive to note that virtually all of MTI's purchased stock of capital equipment comes from public auctions in which machines of liquidated or restructured SOEs have been sold. While such auctions are mainly seen as a mechanism for creating some financial returns to those who hold claims on troubled SOEs, the MTI example shows the significant efficiency and output gains that can be created by simply reallocating capital equipment from poor public performers (who often obtained the equipment with donor support) to private operators who have a real financial stake in the efficient use and upkeep of such equipment. Thus, rather than focusing exclusively on transferring ownership of the assets of these enterprises, donors and the GOS should be seeking to create new avenues for private activity. Had Dakar Marine been liquidated and its assets sold-off in 1990, today there could very well have been 2 or 3 other MTI examples operating in Senegal.

Creating new avenues for private enterprises may also require a "disengagement" on the part of donors and private sector support institutions. A critical factor in the birth of MTI was the decision of SODIDA to let out a contract for the operation of its central machine workshop. This allowed MTI's founders to have access to a core group of machines without a large initial capital outlay. Had SODIDA continued to operate the workshop itself as a subsidized service to SMEs on the estate, it is doubtful that MTI would be in existence today. Thus, by abandoning the actual provision of services itself and retreating from its SME support role, SODIDA actually facilitated the development of a sustainable SME in a promising market niche.

But much remains to be done, and there is great potential for cost-reduction, employment-increases and harnessing of entrepreneurship. Various instruments have been suggested.

A studies and dialogue-based approach, for the public sector in particular. This would involve creation of a Public Sector Disaggregation (or Subcontracting) Fund that would finance feasibility studies to assess specific subcontracting opportunities, public or private. It would organize consultative committees for presentation of options, costs, benefits. (The approach is very much in line with "Reinventing Government" ideas.) It could support Private Sector Foundation programs to identify weaknesses in service provider capacities and seek remedies. It might help strengthen marketing capacities of these providers.

A Business Links Program, such as exists in Zimbabwe, South Africa and other countries. A private sector organization is given responsibility for designing and implementing a program of studies and public education aimed at encouraging subcontracting and other links between larger and smaller entities. "Factory process audits" are done, to identify areas where enterprises can outsource. "Buyer Open Houses" bring groups of potential suppliers to the premises of potential buyers. "Supplier Capacity Audits" analyze the capacity of an enterprise to supply a particular good or service and propose remedies for weaknesses.

This private firm-focussed approach should be explored, since it is being pursued in a number of other countries from which useful lessons may be drawn. It would appear somewhat less promising than the public sector-oriented proposal. Market failures are less likely in the private domain. Large scale employers already have incentives to outsource. Labor regulations give them big incentives to do so. Interviews and some available data suggest that they act on these incentives: many large firms contract out and hire temporary workers under linkage-type arrangements.[35]

Support Public Education and Research in Market Economics

A great many of our interlocutors emphasized the **need for better public understanding of what liberalization and market-oriented policies mean**. Some especially knowledgeable observers pointed out that genuine acceptance of the reforms of recent years has not yet penetrated beyond the top political and technical strata, and emphasized that this is a major factor in backsliding and hesitation. It is also clear from what is known about the decision process within government, and from economics-related articles in the press that policy analyses with a good basis in market economics are often lacking. Misconceptions about how markets work are widespread, among civil servants and among intellectuals. Such misconceptions often underlie injudicious public policies.

Many different kinds of programs are mentioned to address these problems. Short run efforts should go to **expand the number and content of seminars and lecture series** addressing public policy issues from economic perspectives. Civil servants and journalists should be special targets of such educational activities.

A more basic attack requires institutional strengthening, or more precisely, institutional innovation. Presently, there are few places in Senegal where public policy is the subject of serious research and debate. Yet without such institutions it is hard to see how the analytic level of policy debate can be raised, and even harder to see how deeply held dirigiste convictions can be confronted. The challenge calls for something like the **establishment of an independent economic policy research and education institution** (perhaps an "Institute of Market Economics," which would be a permanent source of policy analysis and public education. The development of such an institution is compatible with possible future USAID plans to move to a Foundation mode; the creation of an autonomous Institute of Market Economics could begin right away and be sustained later, whatever the form the American aid presence takes in the future.

Increase the Capacity of SMEs and Service Providers Targeting the SME Sector

SMEs active in agricultural product processing, tourism, industrial services, construction and fishing are among the fastest growing segments of the Senegalese private sector. However, SMEs remain in may ways, the least well served and understood sector of the Senegalese economy. Larger

[35] For similar reasons it is hard to be enthusiastic about the proposal to create a **Bourse de Sous-Traitance** on the Tunisian model. This proposal originated after a visit to Tunisia by Senegalese managers of private sector-related organizations. This institution, which appears to work well in Tunisia, is an information center that brings larger producers and smaller providers together on an ongoing basis. One objection is the likely inefficiency of this arrangement; it is a *Bourse* without prices or proxy indicators of the nature and quality of the service provides who are up for "sale." Also, the incentives to contract out are already strong, as indicated, and much of it is going on. So the value added of a *Bourse* might be small.

firms have a high enough profile to demand attention from authorities and find a warmer welcome among Senegalese banks. Microenterprises are the target of a range of NGO and donor support projects. But SMEs remain in many ways the "odd man out." Helping SMEs to achieve sustainable growth and to move into areas of the economy that are vacated by public sector providers should involve two different sets of possible interventions: (1) those that are designed at helping SMEs themselves overcome specific firm-level obstacles and (2) those that are designed to overcome obstacles related to the poor institutional support environment for SMEs — mainly by strengthening consultants and service providers targeting the SME sector.

Suggestions for possible interventions under both these headings are described below.

For SMEs:

Enterprise heads, business school teachers and specialized trainers suggest three kinds of programs that would target SME entrepreneurs and their workers:

Entrepreneurship training, along the lines of the courses given under previous USAID financing. The need for entrepreneurship training is often suggested as a possible response to what many observers have diagnosed as a general lack of an entrepreneurial culture in Senegal. This cultural bias, which often manifests itself in a preference for trade and rapid turnover activities to those that require sustained investment and management expertise, is also accentuated by the fact that many potential SME entrepreneurs are coming from past employment in the public or state enterprise sectors, and have not had a chance to develop the necessary reflexes and tools of successful entrepreneurs. Actual training modules might consist of brief (two week) workshops, bringing together established entrepreneurs seeking to improve their managerial capacities and aspiring entrepreneurs. The training would focus on the entrepreneurial spirit, management tools and techniques, and business plan development. A critical part of the training would be subsequent follow-up to help participants apply the concepts learned in the every day work of their enterprises. These courses might function along the lines of the entrepreneurship training offered by USAID from 1988 to 1992 which trained over 300 people, many of whom are now among the leading Senegalese entrepreneurs. A fuller description of this suggestion is provided in Annex 3.

Expansion of content and increase in number of **management workshops** oriented at transferring basic business management techniques. These workshops would be much less involved than the entrepreneurship training suggested above and would be targeted much less selectively. Similar workshops are now being given by the International Labour Office to generally good reviews.

Training for higher levels of skilled workers, including foremen/supervisors. Technical training in such areas as metalworking, electrical systems repair, and construction is also reported to be a major need by many SMEs — especially at the foreman or shop-floor supervisor level. Various industrial concerns report that, while Senegal seems well supplied in unskilled and skilled workers, there is a real shortage of technicians with the right combination of technical skills, education and organizational experience working in a professional setting to be able to operate effectively as workgroup leaders. This training would seek to fill in gaps in formal training (math, blueprint reading, etc.) by giving practically-oriented workers just enough theory to permit them to see new applications and handle new situations. The training would also focus on building teamwork and leadership skills to prepare these workers for supervisory roles.

For the same target group, internships in larger local enterprises, and possibly abroad. Many SME managers say that their more skilled technical workers could benefit greatly from internships in larger structures to familiarize themselves with practical management techniques, new equipment and materials. This work would also help such technical workers acquire skills that might eventually help them start their own businesses.

For Consultants and Service Providers:

For the burgeoning consultant community, **three related needs** are mentioned most frequently: development of greater **professionalism** among consultants, more extensive **contacts** with international consulting firms and **greater access** to international contracts. Two specific types of programs are suggested.

A strong effort to develop internship arrangements, domestic and foreign. Those Senegalese firms that have reached a certain stage of sophistication should be encouraged to take on new graduates and other aspiring consultants. Practical ways of doing this would seek to focus on fostering a dialogue between consulting firms and educational institutions, offering assistance in working out details of internship arrangements, providing off-site formal training and, perhaps, by providing an appropriate level of subsidization. International management and accounting firms that are located in Senegal and whose staff is almost entirely Senegalese are particularly appropriate targets.

More experienced and advanced consultants want to know how large and successful consulting firms work in other countries. **Short internships and contact-enlarging visits** are said to be potentially high-yielding investments.

Greater efforts should be made to persuade donors that **joint ventures and/or subcontracts between international and local consulting firms**, is essential for local capacity building. Instruments for doing this are not clearly spelled out. But at a minimum, donors should make an effort to create teams of local and international consultants whenever possible.

Promote the Development of Appropriate Financial Intermediaries for SMEs and Microenterprises

Given the general lack of appropriate intermediary institutions for channeling credit and financial services to SMEs and micro-enterprises, interventions to alleviate financial constraints on private sector development should focus on this particular institutional problem. Two specific suggestions may be considered:

It may be possible **to replicate the USAID-supported ACEP experience** which has produced an institution that represents the current "best practice" in the field of micro-enterprise lending in Senegal. Observers and ACEP staff themselves agree that ACEP and similar projects cannot come close to meeting the demand for micro-loans or making full use of the available donor lines of credit that are available to on-lend to micro-enterprises. Key aspects of the ACEP experience that should be replicated are the decentralized profit-center approach to expansion, the careful concern with full-cost pricing and minimalist approach to credit review, and the rapid accessing of outside sources of finance to on-lend to micro-enterprise clients. Such programs also offer an effective way of supporting women entrepreneurs who are starting out with little access to capital.

In the area of SME finance, there is a slightly larger universe of lenders than is the case for micro-lending. Among the major Senegalese banks, the CBAO and SGBS both express an interest in developing a clientele of SME borrowers. Specialized institutions also exist for venture capital (SENINVEST and Cauris Investissements) and leasing (SOGECA). In this market segment, where lines of credit are readily available, the problem of poorly formulated loan applications and investment plans is a major obstacle — but one that is being addressed by the Private Sector Foundation's program of financing up to 75 percent of the cost of consultant assistance to help SMEs develop business plans and market studies. USAID actions in this area should focus on **increasing capacity of consultants (as described above) to bring businesses and lenders together and encouraging the development of specialized financial institutions such as SENINVEST and SOGECA that have appropriate structures for reaching out to the SME sector**. Specific approaches to encouraging the development of SME-focused financial institutions could include: training financial institution personnel in SME business lending; sponsoring internships with U.S. or European venture capital, factoring, export insurance firms; and closely monitoring BCEAO policies on interest rates and financial supervision to make sure that financial sector regulations (particularly usury laws) do not constitute a barrier to the creation of new financial instruments that could serve the SME segment.

Improve Institutional Support for Business and Professional Associations

Given the rivalries and differing constituencies of the different Senegalese business groups, the question of strengthening business associations must be approached with some delicacy. Our investigations to date do not permit us to make definitive judgements about where support for Senegalese business associations should be targeted or exactly what it should contain. However two possible preliminary suggestions may warrant further investigation.

The first of these would be a **program to strengthen the firm-level assistance programs** and general institutional capacities of the sector specific professional associations (*syndicats professionnels*) or independent *ad hoc* business associations such as REEIAS. These organizations tend to be closer to their members than the federations and are the natural vehicle for actions that seek to effect the results of individual enterprise. Specific actions such as helping them develop member services, savings and credit unions, internal organizational capacity and a strategic vision for promotion of their members could help them make the transition to becoming sustainable institutions. USAID could help this process by: providing technical assistance to professional associations to help them with internal organization and financial sustainability issues, facilitating international linkages with U.S. and international markets and organizations, providing funds for Senegalese professional associations to sponsor studies, and co-financing training events. As a specific example, many have noted that a shortage of capital equipment is one of the major constraints facing new SMEs in the industrial service sector. One idea to overcome this obstacle would be to help professional associations in such areas as the construction sector establish links to major international sources of used equipment and co-finance trial shipments.

Helping professional organizations by providing a fund to allow them to design and contract for policy studies is another possible area for USAID support. While the World Bank Private Sector Foundation and GRCC already intervene to some degree by cofinancing studies suggested by private sector groups, these organizations limit their support to commissioning stand-alone studies. Business associations also need assistance in developing their own in-house expertise to the point where they can participate in the design of research programs and become educated sponsors and consumers of policy analysis of enabling environment issues. USAID financing to support such studies could help business associations become more active players in important policy debates surrounding market liberalization and specific obstacles to private sector development. This could add an important new element to the policy debate, as professional organizations that support some aspects of liberalization (such as UNACOIS on trade liberalization) have not yet become active participants in the technical policy debate with donors and the GOS.

Strengthen Training Systems in Commercial Law

Virtually all private sector operators mention that the Senegalese judicial system is ill-suited to handling commercial, labor and contractual disputes. Delays are long and many actors complain about a lack of predictability and even a lack of impartiality in legal decisions. Without a workable system for resolving disputes, private sector actors and potential investors lack confidence in market regulations and even in the ability of the state to enforce a level playing field. This is a serious obstacle to both investment and private sector growth.

In part, these problems stem from a severe shortage of judges. Judicial experts estimate that 1,000 judges are needed in Senegal while only about 200 are in court as of early 1997. Furthermore, few of these have sufficient training in commercial law. Because of these problems, resolving issues like outstanding commercial claims often takes years. Furthermore, the current system of training of Senegalese judges, which concentrates on civil and criminal law, provides inadequate specialized training in commercial law and is not likely to lead to any rapid improvement in the capacity of the *Magistrature*, even with new recruitments. The frequent rotation of judges also prevents them from developing the required experience base.

There is a definite need for more judges with stronger backgrounds in commercial law. Although the World Bank sponsored Comité de Reforme Juridique (CRJ) is working with the French Ministry of Cooperation and the Ministry of Justice's Judicial Training Center on a major project to strengthen the Senegalese judicial system and to train new judges, it is not clear if this program will meet the great need for better trained judicial personnel, USAID may wish to consider **supporting training for judges in commercial law** in close collaboration with the French project and Judicial Training Center.

One possible line of activity to consider is organizing seminars or practicums where judges could work with private sector lawyers to understand the practical effects of judicial decisions on private firms. These would bring judges, entrepreneurs and lawyers together to examine case material drawn from real decisions. Such interventions would be designed to help judges develop an appreciation for the economic and commercial aspects of cases. A comparative legal aspect could also be introduced by sponsoring exchanges between U.S. lawyers and judges. Seminars could either be added to the regular program of the Judicial Training Center or added as an element of continuing education. This program might also be complemented with a grant to provide for an upgrade of physical resources available to judges. Currently there is no public judicial library, the archives are virtually useless due to disorder and staff reductions, and basic private sector legal infrastructure — such as the register of commercial firms is still not computerized.

ANNEX 1

DESCRIPTION OF THE SENEGALESE PRIVATE SECTOR

ANNEX 1

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It is important to note that no statistics exist that would give an accurate snapshot of the Senegalese private sector with firms stratified by size or sector. Without a standard typology separating firms into fixed categories or an information base that would give these categories are real meaning, descriptions of the Senegalese private sector are necessarily subjective.

Recognizing this caveat, we present a description of the different segments of the Senegalese private sector below. Our typology is based largely on two recent quantitative works that have attempted to describe key segments of the Senegalese private sector. The first of these is the Industrial Census of 1995[36], which has collected relatively detailed information on a sample of 277 industrial enterprises out of a total census figure of 452 firms. Our second guide is the survey of 45 SMEs conducted by Regine Qualmann, et al. in 1996 for the German Development Institute.

Building on the distinctions introduced in these sources, the private Sector in Senegal can be decomposed into three segments based on firm size:

- Large Enterprises ("Grandes Entreprises"), which Qualmann defines as those with over 100 permanent employees and which the Industrial Census defines as those with over CFA 500 million ($900,000) in equity.

- Small and medium enterprises (SMEs, or in French "PME/PMI"), which Qualmann defines as those employing from 5 to 100 employees and which the Industrial Census defines as those with under CFA 500 million in equity. These firms generally have fixed locations, are registered with the proper authorities (principally the *greffe du tribunal de commerce*), keep regular accounts and, generally try to keep some degree of separation between the corporate identity and that of the principal owners.

- Informal sector enterprises, which generally have fewer than five employees but may or may not have a fixed location or be registered with the authorities and in which there is little effort made to separate the business and personal finances of the owners. These enterprises exist in a freer regulatory environment in such areas as labor regulations and fiscal imposition. They include both self employed individuals and micro-enterprises with fewer than five employees. This category comprises only enterprises employing traditional modes of production, thus small "modern" enterprises using industrial technology would generally considered to be SMEs regardless of the number of employees.

The distinctions between these different segments is not always neat. The first two segments correspond to what most people consider to be the "formal" or "modern" sector. But the line between the smaller and less structured SMEs and informal sector micro-enterprises is sometimes difficult to draw. In our typology we are making a double distinction based both on size and the degree to which enterprises follow proscribed business practices regarding registration with the authorities and the separation of personal from corporate identity. In practice, this type of distinction becomes difficult to apply since there are often quite large "informal" sector firms that may employ many more than five

[36] Recensement Industriel, Présentation de Synthèse des Résultats Provisoires au 31/12/95.

people but which make no effort to separate the corporate from the personal or keep minimal records, just as there can be very small "formal" incorporated firms with under five employees. [37] An example of a firm that straddles this dividing line is presented in the box below.

ESCM-Metalworking

Mbaye Dieng, ESCM's founder received little schooling and began to work as an apprentice in an informal sector metalworking shop in the Dakar industrial zone in 1967 at the age of 16 with a salary of around CFA 8,000 to 9,000 a month. For five years he worked in the shop gradually increasing his technical expertise and saving CFA 2,000 a month to begin constituting capital for eventually starting his own business. In 1972, he was recruited by SAA, a formal sector construction firm that worked for such clients as the BCEAO and the Hotel Teranga. His new employer hired him on a permanent full time basis with the status of *ouvrier 4ème catégorie* at an average salary of CFA 17,000 a month including overtime payments. During his time with SAA he rapidly increased his stock of savings, which he used to buy soldering equipment that he locked away in his family's house.

In 1976, after four years at SAA he decided that he had amassed enough equipment and experience to strike out on his own and found his own business — ESCM. He hired four apprentices and registered with the greffe du tribunal de commerce as a personal enterprise. Since he enjoyed a friendly and mutually beneficial relationship with SAA, he entered into an ongoing piecemeal subcontract with them whereby they agreed to source all their metalworking needs through Mbaye and pay him on a per item basis. With the solid volume of construction site work afforded by SAA, ESCM began also to add contracts with individuals to manufacture window grills and gates for their houses. In his first year as an independent businessman he did approximately one million CFA worth of business.

Over the next two decades, ESCM grew slowly but steadily as it expanded its client base to include major firms such as ICS, Mobil, Shell, and SMEs such as GEAUR. Today ESCM produces doors, grates, window grills for individuals and kiosks, shelves, display cases, and gas burner plates for its business clients. Its annual revenues are around 60 million CFA and it employs 10 permanent workers and fifteen apprentices. In 1993 ESCM changed its status and became a GIE. Since he realized that he needed help running the business, Mbaye hired his cousin who has a university degree in accounting and financial management to be the Commercial Director and help with financial management. He also makes use of engineering consultants to do technical studies and determine production costs for new products, such as his new line of gas burner plates that he is successfully selling to Mobil and Shell. He has also hired consultants to analyze the feasibility of responding to calls for bids on construction projects in Cap Vert.

Mbaye and his cousin both say that ESCM's major problem is a lack of working capital to buy their fundamental raw material which is scrap metal. Their major suppliers are informal sector metal dealers who offer little in the way of supplier credit. They recount somewhat sheepishly their recent decision to submit a bid for a 100 million CFA metal working project put out for bid by the French Volunteers for Progress, which they are glad they did not win because they knew they could not have finance the required raw materials. They say that they did not even think of applying for a line of credit from a bank since they believed banks would not lend to metalworking enterprises such as theirs that are on the frontier of the informal sector.

[37] Our definition of the informal sector differs slightly from that developed by Webster and Fidler in their World Bank study of the informal Sector in West Africa (1995). Webster and Fiddler argue in favor of a purely size based definition, without any reference to the degree of recognition accorded to the enterprise by authorities. We have preferred a somewhat less precise definition for two reasons: (1) this corresponds more closely to what most people mean in Senegal when they refer to the "informal sector"; and (2) we do not wish to abandon the notion that "informal sector" enterprises are subject to less rigorous regulatory and fiscal standards — since this is what is implied when most Senegalese speak of "informal sector enterprises." Since we are engaged in no rigorous hypothesis testing, this somewhat more fluid definition does not come at any great analytical cost.

Each of these segments is described briefly below.

Large Enterprises

Virtually all studies of the Senegalese private sector note the important economic role played by a small number of large enterprises that are mainly concentrated in manufacturing and raw materials processing. Statistics cited by Qualmann in a 1995 report show that in 1991, the 40 largest enterprises accounting for 80 percent of total industrial production. Later figures from the 1995 industrial census indicate that the 37 largest firms accounted for 76 percent of the revenues and 70 percent of employment (526 per firm). Although these figures probably overstate the importance of large enterprises, because of possible selection bias in favor of larger more visible firms, they are broadly indicative of the heavily concentrated nature of industrial activity in Senegal.

Many of these large firms have benefitted from high levels of protection arising from special agreements with the Government. These agreements, called *conventions speciales*, were, for the most part, negotiated in the 1970s and afforded significant tax benefits, subsidies and market protection through restrictions on imports and domestic competition. World Bank figures show that in the mid-1980s large firms operating under *conventions speciales* produced 75 percent of all value added in agro-industry (not including fishing), 68 percent of textiles and leather and 90 percent of all construction materials. By early 1995, the situation was fairly similar. Of the top ten enterprises in Senegal measured by total revenues, six were still beneficiaries of *conventions speciales*. The *convention speciale* system has been the target of reform efforts during the past several years within the framework of the World Bank Private Sector Adjustment and Competitiveness Credit (PASCO). Many *conventions* have been allowed to expire or have been renegotiated with a deceasing level of protection.

While large enterprises protected under *conventions speciales* have formed the core of the Senegalese industrial sector, there are also a number of larger enterprises operating outside this system. These include several large foreign-owned firms such as Shell, Mobil, Parke Davis and Colgate Palmolive that have set-up operations in Senegal and have made significant contributions in terms of output and employment. These firms, in general, do not enjoy the same degree of market protection afforded to firms operating under the *convention speciale* regime.

Small- and Medium-size Enterprises

Systematic data on Senegalese SMEs are few and far between. No information, recent or otherwise, exists that would provide a complete picture of the number of SMEs, their sectoral distribution, or their contribution to employment or output. Sorting out partial data from various surveys and estimations is hazardous because of differences in definitions and sampling procedures.

Despite these difficulties, existing studies do shed some light on the universe of Senegalese SMEs. A 1992 World Bank study estimated that, in 1990, there were 480 industrial enterprises (including service providers) with between 10 and 50 employees and 120 with staff from 50 to 100. Information collected by indicates that there are 1,200 industrially-oriented SMEs with between 6 and 150 employees in all of Senegal.

Using data from the 1995 industrial survey and the Qualmann estimate of 1,200 SMEs, it is possible to calculate a total permanent employment figure for the SME sector of over 40 thousand, as shown in Table 1-1. These figures would tend to indicate a greater role for SMEs in employment than is generally acknowledged.[38] In any case, SMEs account for one-half to two-thirds of formal sector employment.

TABLE 1-1
ESTIMATED SME EMPLOYMENT

	Number of Enterprises (a)	**Ave. No. Permanent Employees (b)**	**Total Permanent Employment**
Small Enterprises	864	19	16,416
Medium-size Enterprises	336	71	23,856
Total	1,200		40,272

(a) Applies ratio of small to medium-size enterprises from 1995 Industrial Survey to total industrial SMEs cited by R. Qualmann.
(b) Figures from 1995 Industrial Survey.

Informal Sector

Virtually all descriptions of the private sector in Senegal note that most economic activity takes place in the informal sector. Whereas the formal sector (large enterprises and SMEs) employs only about 2 percent of the labor force, most observers place 90 percent of the labor force in the informal sector and attribute 50 percent of GDP to informal activities. About 30 percent of Dakar residents rely primarily on informal sector income. The informal sector accounts for virtually all of agricultural production and most of trade and transportation services. Retail and import trade is largely an informal sector activity. Informal sector manufacturing activities include metal working, furniture making, textiles, food and leather processing.

The definitive study on the informal Sector in Senegal undertaken by Charbel Zarour in 1988 notes that only 26 percent of informal sector firms pay taxes to the state. This low level of taxation, coupled with lax labor regulations, often provokes claims of unfair competition from formal sector enterprises. Nevertheless, actual competition between formal and informal productive enterprises is exaggerated. A 1994 CRS survey of informal sector entrepreneurs found that 23 percent of informal sector customers were SMEs or large enterprises. This tends to support the statements made by some mangers of large industrial firms interviewed by the team to the effect that they maintain close supply relationships with informal sector operators who are able to furnish competitive products at prices which formal sector firms cannot match. These linkages seem to indicate the existence of a greater degree of complementary supply relationships and specialization between formal and informal sector firms than is generally recognized. The clearest opposition between the two sectors occurs in the area of trade, where formal sector firms resent competition from imports brought in my informal sector operators.

[38] This is roughly twice the estimated SME employment according to J.M. Bellot's 1988 study.

Informal sector activities are also a major center of revenue earning activity for women. While a 1989 ILO study found that women constituted only 8 percent of permanent employees in the formal private sector, a 1991 survey found that women constituted 65 percent of the informal sector work force in the Dakar region. The informal sector is also the only segment of the private sector where women play a major role as enterprise owners, although there are also more women-owned SME service sector firms. While men tend to predominate in informal sector manufacturing, women form the core of hairdressing, dressmaking, food preparation and retail trade service providers.

Women remain handicapped by a high degree of illiteracy and a weaker educational background than men. Figures from the 1991 employment survey in the Dakar region indicate that 61 percent of women reporting some economic activity had never attended primary school, while the corresponding figure for men was only 43 percent. Women access to capital and credit may also be restrained by the fact that most household assets (principally real estate) usually belongs to the male head of household — giving women substantially less collateral with which to secure loans.

ANNEX 2

STATISTICAL TABLES

ANNEX TABLE 2-1
AGRICULTURAL INCOME, 1993-1996

See bottom for Synthetic Table

		Cotton	Ground Nuts	Groundnut Oil US	Oil UK	Palm Oil Malay/ Indon.	Phosp	Rice	Wheat	EC Sugar	Int’l Sugar	US Sugar
1989	Q1	64	824	656	17.5	394.3	41.5	270.7	174.7	24	11	22
	Q2	76.6	845	782.3	18.5	390	40.8	311.7	173.2	22	12	23
	Q3	82.5	775.7	808	17.5	321	40.5	334.7	164.9	22	14	24
	Q4	80.6	825.3	852.7	19.4	296.3	40.5	282	164.9	22	14	23
	AVERAGE	75.9	817.5	774.8	18.2	350.4	40.8	299.8	169.4	22.5	12.8	23.0
1990	Q1	76.7	901	935.7	19.8	278.7	40.5	288.3	161.8	23	15	23
	Q2	86.2	887.7	929.3	16	273.3	40.5	263.7	148.1	23	14	24
	Q3	84.8	1436.7	959.7	27.8	284.7	40.5	258.3	118.7	29	11	23
	Q4	82.5	2076.7	1030	32.4	322.7	40.5	272.3	113.5	30	10	23
	AVERAGE	82.5	1,325.5	963.7	24.0	289.8	40.5	270.6	135.5	26.3	12.5	23.3
1991	Q1	84.3	1779.3	1020.7	20.7	345	42.5	314	114.9	30	9	22
	Q2	83.8	1286.3	947.3	18.8	316	42.5	289	121	27	8	21
	Q3	74.9	1012.7	901	19.8	334	42.5	298	126.3	27	10	22
	Q4	64.6	873	710.3	20.6	361	42.5	273.7	152.4	28	9	22
	AVERAGE	76.9	1,237.8	894.8	20.0	339.0	42.5	293.7	128.6	28.0	9.0	21.8
1992	Q1	57.1	785.7	606.3	17.9	387	42.5	277	172.1	28	8	21
	Q2	60.8	801.3	643.7	20	399.7	42.5	273	152.8	29	10	21
	Q3	60.6	795	601.3	20.1	385.1	41	268	134.4	30	10	21
	Q4	53.3	814.5	587	19.3	403	41	252.7	145.3	27	8	21
	AVERAGE	57.9	799.1	609.6	19.3	393.7	41.8	267.7	151.1	28.5	9.0	21.0
1993	Q1	59.8	852.9	611.3	18.2	414.3	33	248.7	150.8	28	9	21
	Q2	59.9	982.5	673.7	18.3	372.7	33	193.3	133.5	30	11	21
	Q3	56.2	1187.3	825.3	16.5	356.7	33	208.7	129.5	27	10	22

	Q4	56.2	1345.8	841.2	15.2	367.3	33	298.3	147	27	10	22
	AVERAGE	58.0	1,092.1	737.9	17.0	377.8	33.0	237.3	140.2	28.0	10.0	21.5

1994	Q1	76.6	1182.1	1005.1	13.9	395.7	33	330.3	147.1	27	11	22
	Q2	85.2	938.3	1021.3	16.1	476.7	33	240	140	27	12	22
	Q3	78.1	882.7	1017.1	16.8	564.6	33	245.3	147.5	29	12	22
	Q4	79.1	816.1	1047	16.5	679.7	33	262.3	164.6	30	14	22
	AVERAGE	79.8	954.8	1,022.6	15.8	529.2	33.0	269.5	149.8	28.3	12.3	22.0
1995	Q1	101.7	872.7	1023	16.9	667.7	35	281.3	153.7	30	15	23
	Q2	111.1	828.7	973	18.1	623.3	35	298.4	159.2	32	14	23
	Q3	90.6	910.3	976.7	16.2	619	35	348.7	189.4	32	13	24
	Q4	89.7	1028	991	17	604.3	35	354.8	205.6	32	12	23
	AVERAGE	98.3	909.9	990.9	17.0	628.6	35.0	320.8	177.0	31.5	13.5	23.3
1996	Q1	85.3	984.7	932	18.6	524.1	39	364.6	213.8	31	13	23
	Q2	83	993.3	898.7	19.5	545.3	39	333.2	247	31	12	23
	Q3	77.3	964	888.7	20.9	511.3	39	340.6	191	31	12	22
	Q4	76.5	906	870	23.6	547.3	39	313.8	176.8	32	11	22
	AVERAGE	80.5	962.0	897.3	20.6	532.0	39.0	338.0	207.1	31.3	12.0	22.5
1997	Q1	80.3	890.3	885.3	21.2	568.7	41	342.6	174.9	30	11	22

ANNEX TABLE 2-2

COMMODITY PRICES

	Price	Unit	1989	1990	1991	1992	1993	1994	1995	1996	Q1 1997
Cotton	Liverpool, Index A, cif	$/MT	75.9	82.5	76.9	57.9	58.0	79.8	98.3	80.5	80.3
Groundnuts	US, cif European	$/MT	817.5	1325.5	1237.8	799.1	1092.1	954.8	909.9	962.0	890.3
Groundnut Oil	US, cif European	$/MT	774.8	963.7	894.8	609.6	737.9	1022.6	990.9	897.3	885.3
Oil	UK, light blend, fob	$/BBl	18.2	24.0	20.0	19.3	17.0	15.8	17.0	20.6	21.2
Palm Oil	Malay/Indo, cif NW Europe	$/MT	350.4	289.8	339.0	393.7	377.8	529.2	628.6	532.0	568.7
Rock Phosph	BPL, fas, Morocco	$/MT	40.8	40.5	42.5	41.8	33.0	33.0	35	39.0	41.0
Rice	5% broken, 7 exporters	$/MT	299.8	270.6	293.7	267.7	237.3	269.5	320.8	338.1	342.6
Wheat	US#1, fob Gulf of Mexico	$/MT	169.4	135.5	128.6	151.1	140.2	149.8	176.9	207.1	174.9
Sugar, EC	EC Import price	CTS/KG	22.5	26.3	28.0	28.5	28.0	28.3	31.5	31.3	30.0
Sugar, Int'l ($)	Int'l Sugar Agreement	CTS/KG	12.8	12.5	9.0	9.0	10.0	12.3	13.5	12.0	11.0

Sugar, US ($)	US Import price	CTS/KG	23.0	23.3	21.8	21.0	21.5	22.0	23.3	22.5	22.0

Source IMF Data Files.

ANNEX TABLE 2-3

1. INSTITUTIONS D’APPUI A LA CREATION ET AU DEVELOPPEMENT D’ENTREPRISES

Domaines spécifiques d’intervention	CCIA	UNCM	SONEPI	SODIDA	Guichet Unique	CAEE (projet)	Zone Franche (fin 1999)	P.C.2 (projet)	FSP
Etudes de faisabilité de projets et/ou aide àla création d’entreprises	•		•					•	•
Assistance, encadrement Conseils en gestion et appui technique	•		•	•					•
Facilitation et accélération procédures d’agrément au Code des investissements					•				
Attribution et gestion de terrains ou locaux industriels			•	•					
Promotion des investissements			•		•		•		
Recherche partenaires et joint-venture entre promoteurs nationaux et étrangers	•		•						
Montage de dossiers de financement	•		•						
Etudes sectorielles ou de filières			•			•		•	
Appui secteur informel	•	•						•	•
Formation	•	•						•	•
Mise àdisposition et financement partiel de consultants privés locaux et étrangers						•			•
Appui aux organisations patronales						•			•

ANNEX TABLE 2-3

2. INSTITUTIONS D'APPUI A LA PROMOTION DU COMMERCE EXTERIEUR

Domaines spécifiques d'intervention	CCIA	UNCM	CICES	Trade Point	ASACE	Zone Franche	FSP
Information économique et commerciale	•		•	•			
Promotion des exportations	•		•	•		•	•
Recherche de débouchés à l'export et mise en relations d'affaires	•		•	•			
Organisation de missions commerciales àl'étranger	•		•				
Organisation et participation à des foires et expositions commerciales	•	•	•				
Assurance-crédit àl'export					•		
Facilitation et accélération de procédures du Commerce Extérieur	•		•	•			
Formation	•	•	•				•
Conseils et assistance	•	•	•				•

ANNEX TABLE 2-3

3. INSTITUTIONS D'APPUI A LA NORMALISATION ET LA CONTROL DE QUALITE

	ITA	Projet Technopole	ISN
Recherche appliquée au bénéfice de l'entreprise	•	•	
Contrôle qualité	•		•
Normalisation			•

4. INSTITUTIONS D'APPUI A L'AMELIORATION DE L'ENVIRONNEMENT EXTERNE DE L'ENTREPRISE

	CRCC (projet)	CAEE (projet)	CRJ
Levées contraintes (externes) de l'entreprise (fiscalité, coûts production, bureaucratie, etc. . .)	•	•	
Amélioration du cadre juridique			•
Communication et concertation Etat-Secteur privé	•	•	•

ANNEX TABLE 2-4

PRINCIPALES STRUCTURES DE FINANCEMENT DES PME/PMI

Structures	Mécanismes de financement	Conditions d'accès	Avantages	Inconvénients	Financement
Lignes de Credit / Fonds de Guarantie des Bailleurs de Fonds					
Banque Ouest Africaine de Développement (BOAD)	Prêt direct àmoyen et long terme	• tous secteurs • apport minimum exigé • garanties traditionnelles • dossier complet • minimum 200 millions FCFA • maximum 50% coût projet • taux du marché • durée 12 ans maximum • différé 3 ans maximum	• bonne couverture sectorielle	• conditions d'accès difficiles (apport, garantie) • délais très longes	
Banque Ouest Africaine de Développement (BOAD)	Financement indirect pour PME/PMI confié à institutions financières locales	• maximum 200 millions FCFA • apport minimum exigé • garanties traditionnelles • dossier complet • taux négocié avec BOAD • durée 15 ans maximum • différé 5 ans maximum • accord préalable de BOAD	• décision + rapide • financement logé dans institutions spécialisées pouvant apporter appui aux PME/PMI	• conditions d'accès de type bancaire	
Ligne de crédit artisanal financé par la BOAD (exécuté par le FPE)	Finance des besoins en intrants et en investissements des entreprises artisanales	• secteur de l'artisanat • apport personnel 10% coût projet • plafond 20 millions - taux d'intérêt 10% exonéré de taxes - durée 7 ans maximum - différé 2 ans maximum	• fonds de prêt participatif pour projets des femmes • fonds de garantie • appui de Direction artisanat chambre de métiers et FPE • faibles exigences pour accès	• passages obligé par banques peut constituer un blocage?	Montant = 3,5 milliards (lancement en juillet 1996)
Conseil et Partenariat Entreprise (COPARE/PME) finance par FED et CFD	Crédit àcourt et moyen terme	• tous secteurs sauf habitat • apport personnel de 10% • garanties allégées • maximum 60 millions FCFA • taux d'intérêt 11% maximum • durée maximum 5 ans	• formation en gestion et suivi du projet • procédures allégées • couverture sectorielle • exigences - lourdes en apport et garanties	• faible couverture territoriale (4 régions/10) • plafond de financ. faible • durée du prêt court	Montant = 6,3 milliards Engagés = 3,2 milliards

Structures	Mécanismes de financement	Conditions d'accès	Avantages	Inconvénients	Financement
Fonds de Promotion Economique (FPE) financé par BAD	Crédit àcourt et moyen terme	• tous secteurs • apport personnel de 30% • garanties classiques • plafond 70% du coût projet • taux intérêt 13% maximum • durée 15 ans maximum • différé 5 ans maximum • commiss. 1% montant prêt	• fonds de participation • fonds de garantie • délai de décision rapide • aide au montagne des dossiers	• garanties relativement contraignantes pour l'apport demandé • réticences des banques àtraiter petits projets et nouveaux clients	Montant = 39 milliards Engagés = 53,9 milliards
Fonds de Restructuration Industrielle (APEX) financé par BM	Crédit àmoyen et long terme	• secteur industriel (investissement, et fonds roulement) • conditions investissements - plafond 80% coût projet (limite = 1200 millions FCFA) - taux d'intérêt 9,5% - durée 15 ans maximum - différé 5 ans maximum • conditions fonds roulement - plafond 300 millions FCFA - taux d'intérêt 10,5% - durée 5 ans maximum - différé 3 ans maximum	• conditions financières relativement favorables • plafond d'intervention élevé	• conditions d'accès très contraignantes pour PME/PMI (garanties notamment)	Montant = 13,1 milliards Engagés = 13,1 milliards
Institutions Financieres Privés (ONGs, Stés. financières)					
Société Générale de Crédit Automobile (SOGECA) financé par CBAO, SFI et PROPARCO (CFD)	Crédit pour véhicules et équipement Crédit - bail pour matériel professionnel	• tous secteurs • tout type de biens d'équipement • présentation de comptes fin. • loyers en fonction durée du contrat • loyer trimest. ou mensuels • dépôt de garantie exigée	• capacité d'endettement préservée • flexibilité technologique • pas d'apport personnel	• conditions d'accès difficiles pour garanties et comptes financiers	
Cauris Investissements, S.A. (financé par la BOAD)	Prise de participation	• participation minoritaire (10 à25% du capital) • durée de 4 à8 ans • 50 à200 millions FCFA • dossier complet + références bancaires + rapport d'audit	• tous secteurs • apport d'argent frais • conseils stratégiques	• conditions d'accès difficiles	

Société Sénégalaise d'Investissement (SENINVEST)	Prise de participation (toujours minoritaire) • augmentation de capital • achats d'actions • apports en comptes courants • achats de titres convertibles	• tous secteurs sauf négoce • entre 10 et 30% capital • présentation d'un plan d'affaires	• assistance et conseil pour montage et gestion du projet • partage des risques et opportunités • augmentation de la capacité d'endettement	• nécessité de disposer d'un dossier bien ficelé	
Alliance de Crédit et d'Epargne pour la Production (ACEP)	Crédit àcourt et moyen terme pour investissements et fonds de roulement	• tous secteurs • toutes les régions • plafond 15 millions • durée 12 à24 mois • taux d'intérêt 15%	• pas d'exigence de dossier • accent sur rentabilité • encouragement àépargne	• niveau relativement faible plafond de crédit	Capital = 1,2 milliards Volume de prêts = 3,3 milliards

Source: investigations de l'equipe.

ANNEX 3

PLAN DE FORMATION A L'ENTREPRENEURIAT
PERSONS INTERVIEWED

ANNEX 3

PLAN DE FORMATION A L'ENTREPRENEURIAT
PERSONS INTERVIEWED

1. Private Sector Operators

Private Lawyer
Me. Aissatou TALL, Avocat à la Cour

Regroupement Economique des Entreprises Industrielles et Artisanales de la SONEPI (REEIAS)
El Hadji Mass SALL, Président; Moctar SECK, Coordinateur

GEAUR
Babacar NDIAYE, Président-Directeur Général

F.K. Entreprise de Nettoyage Professionnel
Fatou Kiné DIAW, Présidente

Importer
Cheikh Bamba NDIAYE, Importateur des Matériaux de Construction

MTI Maintenance Industrielle
Papa TOURE, Président; Moctar MBENGUE, Directeur Administratif Financier

SEDIMA
Babacar NGOM, Président Directeur Général

Club des Investisseurs Français en Afrique (CIAN)
Pierre MICHAUX, Président

CBAO
Abdoul MBAYE, Président

Industries Chimiques du Sénégal, SA
Souleyemane SECK, Secrétaire Général Adjoint; Mamadou DIOP, Finance Manager

Seninvest
Mamadou Asta DIAKHATE, Directeur Général

Colgate-Palmolive
Henning JAKOBSEN, Directeur Général

SEPH, SA
Mary FRIEDEL, Directeur Général

Parke-Davis
Richard KWASEK, Directeur Général

TAMARO, SA
Mansour GUEYE, Directeur Général

Consultant Industrielle
Massemba SECK, Président Club Maintenance

Ingénieur Civil/Consultant
Boumama DIAITE

ESCM, G.I.E.
Mbaye DIENG, Président

SENCHIM
Yves VAN GHELLE, Directeur Général

Alliance de Crédit et d'Epargne pour la Production (ACEP)
Mayoro LOUM, Directeur Général

2. Private Sector Support Institutions

Fondation Secteur Prive
Chimère DIOP, Directeur Général

Cellule d'Appui à l'Environnement des Entreprises (CAEE)
Mamadou Mademba NDIAYE, Directeur

Comité de Reforme Juridique
Abdel Karim MBENGUE, Secrétaire Exécutif

Chambre de Commerce d'Industrie et d'Agriculture de la Region de Dakar
Mbaye NDIAYE, Secrétaire Général

AGETIP
Magatte WADE, Directeur Général; Ibrahima NDIAYE, Directeur Technique

GRCC
Coumba Aitta DIAGNE, Président; Amar SALL, Secrétaire Général

Société de Gestion du Domaine Industriel de Dakar (SODIDA)
Mme. Khoudia Kholle NDIAYE, Directeur Général; Momar GUEYE, Conseiller Economique

3. Donors/Consultants

Commission des Communautés Européennes
Andre VANHAEVERBEKE, Chef de Délégation; Nicoletta MERLO, Conseillère; Maurice PAPAZIAN, Consultant

Programme Cadre II, UNDP
Ibrahima BA, Coordinateur Général

Caisse Française de Développement
Alain CELESTE, Directeur; Betrand OISEAUX, Chargé

World Bank
Sangoné AMAR, Abdoulaye SECK, Resident Mission
Cherif AZI, World Bank/Washington
Thierry AUBE, Horticultural Consultant

Fondation Fredrich Ebert
Fara Ndiaye TALL, Projet pour la Promotion de l'Artisanat

International Monetary Fund
Samba THIAM, Resident Representative

USAID/Washington
Richard GREENE, Steven WISECARVER

4. Government of Senegal

Ministère du Commerce
Idrissa SECK, Ministre

Services Technique de la Commune de Dakar
Issa BARRY, Directeur Général

Cellule de Privatisation, Ministère de l'Economie et des Finances
Mr. CAMARA, Secrétaire Exécutif

Unité de Politique Economique, Ministère de l'Economie et des Finances
Mame Core SENE, Directeur Général; Aliou FAYE, Economiste

5. Private Sector Organizations

UNACOIS
Moustapha DIOP, Président; Ameth FALL, Secrétaire Général

Conseil National du Patronat du Sénégal
Youssoufa WADE, Président

G.A.E.P.E.S. and AMERGE Casamance
Fayçal SHARARA, Président

Syndicat Professionnel des Industries du Sénégal (SPIDS)
Donald BARON, Président

Réseau Africain de Soutien à l' Entreprenariat Féminin (RASEF)
Oulimata DIOUM, Secrétaire Général

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