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A Review of Donor-Funded Projects in Support of Micro- and Small-Scale Enterprises in West Africa: Case Studies

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A Review of Donor-Funded Projects in Support of Micro- and Small-Scale Enterprises in West Africa: Case Studies

by

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The primary authors of the nine credit program case studies were the following people:

Maradi Microenterprise Development Project (CARE/Niger), Niger	Robert Strauss
Small and Medium Enterprise Development Project (EDF/Senegal), Senegal	Ann Duval
Small and Microenterprise Development Project Projet d'appui aux petites et microentreprises (PAPME), Mali	Ann Duval
Enterprise Creation Project Projet d' appui à la création d'entreprises et à l'insertion des jeunes diplômés (EDF/Mali), Mali	Ann Duval
Enterprise Creation Center Centre de création des entreprises de Yaoundé (CCEY), Cameroon	Chris Mock
Women's World Banking (WWB/Ghana), Ghana	Chris Mock
Private Enterprise Credit Agency Agence de crédit pour l'entreprise privée (ACEP), Senegal	Nick Rofe
Integrated Rural Enterprise Development Project Projet Rural Intégré de Développement de l'Entreprise (PRIDE), Guinea	William Grant
Agricultural and Rural Credit Project Projet de Crédit Agricole et Rural (PCAR), Guinea	Ann Duval

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The principal authors of the eight case studies of projects with non-traditional approaches to enterprise support were the following people:

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Small Enterprise Development Pilot Project Appui au secteur non-structuré (SNS), Togo	Christopher A. Mock
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CASE STUDIES

OF

NINE CREDIT PROGRAMS

INSTITUTIONALIZATION OF A PROJECT

Background

This document contains case studies of nine donor-funded credit projects designed primarily to provide credit to micro- and small-scale enterprises (MSEs).[1] These case studies were compiled as part of a general review of donor-funded programs in support of MSE projects across West Africa and provide some initial analysis of the credit programs that will be of interest to practitioners in the field. The case studies are based on the best available documentation and limited field interviews. They are not evaluations nor did they involve much, if any, original data collection and analysis.

The cases represent a sampling of projects from the donors who are currently most involved in MSE support - the European Development Fund (EDF), Canadian International Development Agency (CIDA), the U.S. Agency for International Development, and the French Caisse Centrale de Coopération Economique (CCCE). The format of the analyses tried to determine the underlying concept of each project and then look at its evolution during the implementation phase to determine what results it has achieved and where it aims to go in the future. These projects represent a new generation of activities that are achieving some concrete results in assisting MSEs.

The projects have many similarities and many differences. They have had substantial technical assistance and total budgets of $5 million and higher, which are significant investments. Based on their underlying concepts, they can be divided into two large categories: those seeking to create enterprises with credit as the major component, compared with those seeking to provide credit to enterprises and individuals involved in productive activities, whether new or ongoing. Both categories of projects may also have other accompanying activities, such as business plan preparation, training, entrepreneurship development, and technology. Table 1 categorizes the sampled projects.

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[1] Micro- and small-scale enterprises in this context are considered to be firms having between 1 and 49 employees, a very broad definition that reflects the range of enterprises not being serviced by many formal-sector systems.

TABLE 1

TYPES OF PROJECTS

DONOR	PROJECT NAME	COUNTRY	IMPLEMENTING AGENCY
CREATE ENTERPRISES			
European Development Fund (EDF)	Small and Medium Enterprise Development Project (EDF/Senegal)	Senegal	
Canadian International Development Agency (CIDA)	Small and Microenterprise Development Project Projet d'appui aux petites et microentreprises (PAPME)	Mali	
CIDA	Enterprise Creation Center Centre de création des entreprise de Yaoundé (CCEY)	Cameroon	
EDF	Enterprise Creation Project Projet d'appui à la création d'entreprises et à l'insertion des jeunes diplômes (EDF/Mali)	Mali	
PROVIDE CREDIT			
U.S. Agency for International Development (USAID)	Private Enterprise Credit Agency Agence de crédit pour l'entreprise privée (ACEP)	Senegal	
USAID	Integrated Rural Enterprise Development Project Projet rural intégré de développement de l'entreprise (PRIDE)	Guinea	Council on International Development
Women's World Banking (WWB)	Women's World Banking (WWB/Ghana)	Ghana	WWB/Ghana
USAID	Maradi Microenterprise Development Project (CARE/Niger)	Niger	CARE/Niger
Caisse Centrale de Coopération Economique (CCCE)	Agricultural and Rural Credit Project Projet de crédit agricole et rural (PCAR)	Guinea	Institut de Recherches et d'applications des methodes de développement (IRAM)

The Problem: No Formal Financial Systems to Support MSEs in West Africa

Finance is a service industry that enhances the smooth functioning of most businesses and other economic activities. In theory, financial services develop over time to respond to the needs of the local economic actors, both to collect excess resources (savings) and to provide credit. In West Africa, the formal financial systems were imported during the colonial era to respond largely to the needs of the foreign-owned companies. Rather than being built on a basis of financial intermediation, collecting surplus local resources and then allocating them for bulkier investments with a margin for profit, they were to facilitate the operation of the trading companies.

The result has been a financial sector that targets the large firms and without servicing the financial needs of the vast majority of the actors in these economies. Hence, there are few, if any, formal financial services adapted for use by the average small business in this region.

All of the credit programs reviewed here recognize the absence of financial services for MSEs as a major constraint to MSEs' development. Perceptions of which financial services are most needed vary. The enterprise creation projects believe that start-up capital is the constraint, whereas the straight credit projects tend to focus more on working capital. But both sets of projects respond to the fundamental systemic flaw: there are no formal financial services available for the vast majority of the economic actors. The projects seek to provide them.

The projects have had different components. The enterprise creation projects added additional services for help with feasibility studies, finding the right technologies, and assisting the entrepreneur to build his business. Meanwhile the pure credit projects have tended to concentrate just on delivering credit, with no other services (sometimes referred to as the minimalist approach).

NEW FOCUS ON CREATING INSTITUTIONS

The projects have all evolved steadily from design phase to their current situations. This has normally been a dynamic process, and project managers note that the lasting effects of their programs will come through institutionalizing the systems developed by the project into the overall economic environment, not through financing a limited number of enterprises.

Most of the projects start from the hypothesis that they can create a certain number of viable enterprises leading to a specific number of jobs. However, it is nearly impossible to attribute enterprise creation to a project because it is not known whether the enterprise would have been created using other resources if the project had not been there. In addition, it is difficult to tell whether an enterprise will continue to exist after the departure of the services provided by the project (credit or advice). In West Africa, where there are virtually no regular financial systems to support MSEs, leaving a small company on its own will almost certainly lead to failure or reduction in level of activity. Therefore, simply financing a fixed number of enterprises is not the long-run solution, nor is it a cost-effective use of donor funds.

The absence of the formal banking sector in certain areas, or the failure to get it to take an active role in working with the projects to address the systemic problems, led seven of the projects to establish their own systems for providing financial services. As no other structure is available to replace their credit services upon the end of the project, this has led the projects to create a new institution to maintain their programs.

Only the two CIDA projects seek to lend through and in cooperation with the banks. They seek joint funding of the loans, using the bank's own loan funds plus the project line of credit. Unfortunately, the banks are gradually distancing themselves from these two programs, lending less and less. The two projects have not responded to the reality that the banks are not going to pick up the load, nor are they interested in long-term operation in this size of enterprise.

The new focus on institutionalizing the systems has forced the projects to reexamine their operations to see what is needed for sustainability in the new institutions. This has included reviewing the target groups and services offered, ensuring financial stability, and putting in place the management systems necessary to control a growing credit program as well as the national management staff.

Changing Target Groups

As the projects have honed their approach to operate more efficiently in meeting the most important needs, they have changed their target groups and the mix of services required. Many of the projects were created to respond to one particular problem group, often selected by the government for political reasons: unemployed graduates in Mali, refugees from Mauritania, early retirees from the civil service, or parastatals. Other projects targeted just the creation of very small rural enterprises, new technology, or productive enterprises, with no concern for existing activities.

In their implementation, all of these projects have realized that the lack of financial services affects the entire community of small borrowers. The demand, in general, is greater than the projects' ability to service it. Often the targeted groups are the least prepared and highest-risk clients out there, whereas there are many others with viable economic opportunities that will lead to higher rates of return and repayment for the project. As long as the projects are providing credit above the formal market rates (unsubsidized), there is no economic disfunction.

Both of the EDF projects are moving away from their specific target populations and opening up the application process to include all viable enterprises. As a result, enterprise creation is being downplayed, and existing enterprises are being expanded, meeting the same employment objectives with less risk. PAPME has broadened its definition of new technology to include service industries (training and consulting). ACEP initially lent only to very small enterprises, but discovered that it could increase revenue by making some loans to larger borrowers, raising the average loan amount. Since the credit is not subsidized — in fact it is more expensive than bank credit — this is still an efficient way of meeting profitability targets.

The enterprise creation projects are gradually moving away from creation to finance of productive activities. Project managers have discovered that working with new entrepreneurs and focusing just on enterprise creation is riskier and lower payback than meeting the existing demand for credit from other productive activities. This movement is most evident in Senegal and in Cameroon (CCEY), where few new enterprises are being financed, but existing ones are being strengthened and expanded. In some cases, particularly in agricultural areas, the definition of enterprises and the distinction between enterprise creation and enterprise consolidation or expansion have become blurred.

Redefining the Mix of Services

As with the change in client mix, the projects are also redefining the services they need to provide to respond to this new mix and still meet sustainability criteria. They are either dropping the marginal services or are trying to transfer them from the project and to the private sector.

- The EDF/Senegal project is getting out of the habit of doing feasibility studies. It now has many standard financial packages for equipment and does not need to put as much emphasis on learning about its markets.

- PAPME is financing a training enterprise to perform training; the EDF/Mali project is investigating the possibility of spinning off the business consulting portion of its work.

- CARE/Niger has already separated the training component.

- The EDF/Mali project is trying to contract outside help to conduct the feasibility study.

ACEP dropped the entrepreneurship training program that it had in its first phase, when it was determined that training distracted too much from the project's efficiency.

A new service is being added to strengthen the funding base of the projects: taking deposits. Although the projects are still based largely on outside lines of credit — free capital — all the projects with their own financial systems (except the CIDA projects) are now adding a savings component. This trend reflects the demand for savings service and makes the projects aware that they need to find additional sources of funds to reach the loan volumes necessary to ensure profitability, and that having borrower savings on hand reduces the risk of lending. This new service also reflects an important step toward financial intermediation, capturing the local resources for allocation to more efficient uses.

This move away from technical assistance to the enterprises and concentrating on financial services and credit delivery does not mean that there is no demand for business services. It does mean that business services are not necessary for providing sound financial services to large numbers of economic actors.

Financial Sustainability

Financial sustainability is the first condition for institutionalization. If the project loses money, it will eventually disappear. At present, only one of the reviewed projects is really covering all of its operating costs — ACEP — though others show promise of financial viability.[2]

Financial sustainability is achieved by a mixture of keeping costs down while generating realistic amounts of income from interest and fees. One of the most important aspects of income management and cost reduction is maintaining a strong portfolio. A strong portfolio reflects the stability of the institution's lending program. Unfortunately, few of the projects maintain reliable portfolio quality information, but they all register repayment rates, which can be used as a proxy. Table 2 below compares the repayment rates among these projects.

Repayment rates are of limited use as measures of success because they provide no information about the overall portfolio: its quality, size, and the profitability of the operations. However, achieving a high repayment rate is usually a necessity for eventually reaching sustainability, because it limits the loss of funds due to bad debt. Many projects are now keeping information on their ability to cover local operating costs, which provides more relevant information for sustainability. In addition, they do serve some use as a comparative measure to reflect the effectiveness of the program. Table 2 demonstrates the clear increase in repayment rates by most of the projects. Eight years ago, 85 percent repayment was considered to be excellent. It is clear that now 95 percent should be used as the standard cutoff for excellent recovery.

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[2] CARE/Niger claims to be profitable, but it does not define the costs it claims to be covering.

TABLE 2

SUMMARY OF QUOTED REPAYMENT RATES BY SEVERAL PROJECTS

Project	Repayment Rate over last 12 mo.	Time Limit
ACEP	97 %	30 days
EDF Mali	60 %	90 days
PCAR	96.6%	on time
CARE/Niger	95%	-
EDF Senegal	95%	-
PAPME	92%	30 days
PRIDE	100%*	on time
CCEY	70%	-

* The project has only been lending for two months, so this represents five repayment periods.

Several new systems are being used to improve repayment. These generally involve better credit checks on the borrowers, either through sharing the risk of repayment or providing incentives for good evaluation.

The large-scale microlending projects such as CARE/Niger, PCAR, and PRIDE use solidarity lending, or peer evaluation, as the first test. The two Guinean projects also add a second level of local reference checks, bringing all applicants before a local council of elders. Relinquishing responsibility for the review process allows the projects to reach the high volumes of loans necessary to reach a total portfolio capable of covering operating costs. CARE/Niger will have made more than 5,000 loans in the first 12 months of its second phase; PCAR will have 7,000 in the last 12 months; and PRIDE expects to reach about 5,000 loans (2,500 outstanding) by the end of its first 12 months.

Among the projects making larger loans, ACEP has very stringent profiles for a good borrower, and a good bonus system encourages loan officers to scour the neighborhood for credit references on loan applicants. Top ACEP branch managers often double their monthly salary in bonuses. Meanwhile the EDF/Senegal project has gotten the local suppliers to take half of the risk of lending (in return for increased sales), forcing them to vet the loan applicants.

But high repayment rates only lead to viability if the project keeps its other costs down and charges enough to realistically cover those costs. One important cost that needs to be included in the accounting is obviously inflation (to maintain the real value of the fund).

Another cost, which is often not recognized when there are free funds from a line of credit but which mounts very quickly once remunerated savings are being used as the source of capital, is the efficiency of the lending process: what percentage of the available funds is actually in use, and what percentage is in transit between branches and the central office. This amount is often particularly high for projects covering large areas in countries where there is no efficient formal banking system to transfer funds (as in Guinea). Projects in Guinea estimate that as much as 20 percent of their available funds are unusable because they are in transit. This situation points out the importance of good financial management systems.

Along with managing cost, generating income is important. Table 3 presents the different interest rates charged by the sampled projects along with other fees. It is interesting to note the difference in the effective cost of capital to the borrower for each of the projects, which is perhaps the best way to compare the real cost of the services as well as income back to the project.

TABLE 3

EFFECTIVE COST OF CAPITAL TO BORROWERS
FROM THE SAMPLED PROJECTS

Project/Country	Nominal		Effective Annualized	Real Rate
ACEP	Interest	Fees	Cost of Capital (loan)	of Interest
EDF/Mali	16%	1%	17.2 % (1 yr, 1 m FCFA)	14.2
PAPME	8-10%	6%	6 % (3 yr, 4 m FCFA)	3
CARE/Niger	12.75%	2% (tax)	9 % (2 yr, 6 m FCFA)	6
PRIDE	18%	0	9.5 %	8
PCAR	36%	2%	29.1 % (6 mo, 100 k FG)	8.1
EDF/Senegal	36%	2%	23 % (1 yr, 120 k FG)	2
CCEY	11%	11%	13 % (2yr, 5 m FCFA,	10
	21%	0	equipment)	
			12 %	

Legend:
m = million
k = thousand
FCFA = Francs Communauté Financière Africaine
FG = Guinean francs

This table shows the wide range in loan interest rates quoted, with the resulting cost to the borrower. The real rate of interest (cost minus inflation) is also shown, to reflect just how far above inflation capital costs are. Some of the elements this points out are the following:

- The extremes run from 6 percent cost of capital to a client borrowing from the EDF project in Mali for a three-year loan to 29 percent for a loan by PRIDE in Guinea, where inflation is high.

- One notes that ACEP officially charges only 16 percent, which is the formal banking system ceiling within the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO), but ACEP charges it on the total amount, based on the length of the loan, which comes out to 28+ percent annual percentage rate (APR), as the project readily acknowledges.

- EDF/Senegal charges 11 percent APR, but loads on other fees to bring the effective cost to the borrower up to 11-13 percent.

In all but Cameroon, the cost of capital to a borrower is still significantly higher than the rate of inflation.

Internal Management

The success factor that is most evident in these projects is the entrepreneurial spirit of their management. These are competent technicians who know what they are doing and build on past experience elsewhere in Africa.

Another success factor is removing the management of these programs from local government control. Most of the projects have maintained internal control of their management. With donors' assistance, they have structured systems that relieve the local government of any day-to-day management authority but keep them on a joint donor-government steering committee to provide broad guidelines.

Most projects have been able to maintain control of their operations, a necessity for creating a viable institution. One case to follow closely, however, is PAPME in Mali. Its management autonomy is under attack, with increased pressure from the government to make more loans for political purposes. This pressure is damaging its working relations with the Banque Internationale pour l'Afrique de l'Ouest (BIAO), which is financing fewer and fewer loans.

Administrative and Financial Systems

The administrative and financial systems develop slowly in most of these projects as the projects clarify their objectives and address specific information needs.

- The two CIDA projects probably have had the smoothest transition to setting up good systems for accounting and reporting, since they have been dealing directly with formal banks and also targeting larger enterprises.

- ACEP has installed very good control and reporting systems that allow it to know where the resources are and what costs it is incurring. These systems have been a late addition to the project since the first phase was hampered by lack of accurate financial data and some problems with agent corruption.

- EDF/Mali, the second-oldest of the projects reviewed after ACEP, is also developing better systems. One negative, unforeseen consequence of improved systems was that recorded repayment rates for the first two years dropped by 20 percent when the project got a good accountant.

- The CARE/Niger and EDF/Senegal projects are in a tremendous growth phase, reportedly doubling and tripling their services in the last six months alone, and their financial systems have been unable to keep up with the growth. As noted in the reviews, neither project could provide accurate figures on outstanding portfolio, number of active clients, or profitability.

Local Staffing

The seven projects that are targeting institutionalization are all making steady strides to turning over the management to national staff. ACEP has never had more than one expatriate staff member and has developed a capable and hard-working team of nationals who are ready to take over the management. The EDF/Mali project now has Malians as branch managers in all but one of the branches (Bamako). PRIDE has a Guinean project manager, and all of the branch managers are Guinean.

However, as noted above, the entrepreneurial nature of the start-up of these projects has made the complete transition from expatriate staff difficult. There is often an identification with the entrepreneurial project manager. It is interesting to note that in Senegal, the ACEP staff want to maintain the presence of one expatriate in the controller position to prevent any financial problems, even though the expatriate advisor now thinks they are capable of managing it all themselves.

In Mali, a different phenomenon occurred when the expatriate branch manager from Ségou was replaced by a Malian. Then, repayment rates dropped significantly because of the direct link between the borrower and the project manager, showing that perhaps the project systems still need to be perfected to limit the personal nature of the financial transactions.

Structuring the New Institution

Of the nine projects reviewed, six offer good chances of becoming sustainable. The two CIDA projects have not made any effort to reach sustainability, still focusing on the hoped-for payback from investing in larger enterprises. The EDF/Mali project presents an anachronism. Although the project is steadily losing money and the fund is being decapitalized because of poor repayment, it is second-farthest in the process of institutionalization. It has almost completely transferred the management functions to Malians (there is only one expatriate branch manager left, though there are still numerous expatriate technicians working with the project).

Once the financial problems (profitability and funding) and the internal management problems are solved at the project level, they must be projected into the real world. The legal environment may well dictate the final form and structure of the institution, as well as the characteristics of the target market and the structure of the portfolio. Several legal formats are being explored by the five projects that have reached the clear institutionalization decision, that present some options for other projects or businesses in the future:

1. ACEP is actively pursuing the Savings and Credit Union model. Some of the problems it must resolve include the transfer of the portfolio to the institution and creating the institution's legal statutes. The Government of Senegal has agreed to turn the portfolio over to ACEP, but giving it to the members would give them a windfall profit on their share value, unless the institution finds a way to keep it as a guarantee fund, or something similar. Because the BCEAO never thought of small financial institutions (the legal minimum in Senegal is 200 million FCFA in equity), the legal status of such institutions is a second problem.

2. EDF/Mali is exploring the creation of a formal financial institution with mixed bank and government ownership (20 percent each) and the rest belonging to the employees, clients, and private investors. The statutes are already drawn up, and the project is seeking investors to meet the 100 million FCFA in equity required by the BCEAO. A prospectus will be issued in 1993.

3. EDF/Senegal is contemplating either creating a leasing company or an investment company or venture capital fund. Under the first scheme, the borrowers, the Association of Mutual Guarantee Funds (FOGAMU), would have primary ownership of the company and leverage additional investment. The leasing company format reflects the majority of the project's current loan portfolio (equipment loans). Under the investment company approach, the FOGAMU would become a loan insurance company, guaranteeing the investment loans for a fee.

4. The rural bank or locally owned cooperative bank model is being explored by CARE/Niger and by PCAR. In Guinea, the cooperative bank would be composed of legally independent branches, owned and run by their clients and savers, managed by a central unit. This central unit would be controlled by the branches and by a board of directors selected by the donors and the government. As the branch's share of total capital increased, its control of the management would also increase.

The constraints are still numerous, in particular funding and the undefined legal status, but efforts to resolve them are progressing.

Issue for the Future

With institutionalization, these projects must take care to build their linkages with the local economies. Now even the new credit programs will have to determine ways to stimulate different kinds of connections with the formal financial sector and with the local business consulting community to strengthen their own viability.

Reversing the Link to the Formal Sector

The original concept of many of these projects was to inject money into the formal financial system to stimulate interest in lending to MSEs. As noted above, this strategy has failed. But a new option exists that needs to be explored further: the projects are now presenting viable loan opportunities for the banks. Since they have developed the systems necessary to lend profitably to MSEs, the projects can seek their loan capital from the banks and then on-lend to the MSEs. If the institutionalization of the EDF/Mali project goes through as planned, this will become a reality.

This opportunity is particularly relevant to Guinea, where PCAR has taken advantage of a central bank line of credit of 3.6 million French francs (FF). Now the project should be exploring linkages with those members of the formal banking sector in Guinea that are overly liquid, instead of relying on external funds (50 million FF for the next phase). Bringing in outside lines of credit runs counter to the logic of trying to establish stable financial intermediation, and puts local financial institutions at a further disadvantage.

Stimulating Business Services

The other area not adequately explored by the enterprise creation projects is the development of local consulting capacity for business services — feasibility studies, training, and project implementation. In Mali, PAPME and EDF/Mali have both developed their own internal consulting units, complemented by a third project, the UNDP Enterprise Creation Center. All three provide services at well below the actual cost to stimulate lending. The impact of subsidizing internal consulting is twofold:

- It makes for an unsustainable support activity after project completion; and

- It takes business away from local consultants.

Rather than investing project funds to build internal consulting units, the projects could use local private firms, investing in them to ensure that they provide reliable services. This arrangement is now becoming apparent to projects across the region, and several initiatives are under way as noted above in the mix of services. The new IBRD private sector project designed for Mali might present the best example of efficiently building local consulting capacity by following a successful public works model.

CONCLUSIONS ON STRENGTHS AND WEAKNESSES OF THE NEW GENERATION OF CREDIT PROJECTS

These case studies of some of the leading projects in MSE credit delivery in West Africa demonstrate that there has been an evolution in the approach being undertaken by project implementers toward establishing sustainable systems for financial service delivery to MSEs. This movement has come at the expense of enterprise creation, but it is building up the overall financial system, which is more important for long-term enterprise stability and growth. These lessons serve as good guides for other project designers.

Strengths

Many different factors and strengths contribute to the evolution of the projects. The following are not universal, but they highlight the overall system building that has been going on.

First and most important is the autonomy and entrepreneurial nature of most of the projects. The project managers have largely kept the national government civil servants out of the day-to-day management issues, allowing the latter to seek out and develop the factors that have led to success, including gradually redefining the client mix and the services offered. Keeping civil servants out of private-sector-oriented activities is a necessary factor for success.

Second, it takes time to develop the systems and to clearly identify the market for the services. ACEP, after eight years, is just reaching maturity and will be able to stand on its own. EDF/Senegal has undergone major management changes in its four years. EDF/Mali has been operational for five years, changed management once, and expects to reach a point of equilibrium in two more years. After four years of operation, PCAR envisages needing another few years before it will be operational. CARE/Niger is also in its fifth year and needs two more years. All of these projects have worked through difficulties and begun to attain stability.

Third, more and more projects including ACEP and EDF/Senegal are taking a professional banking approach to doing business, moving away from the softer development approach. They are shifting from targeted lending and enterprise creation toward helping area economic operators develop and expand existing productive activities.

Fourth, projects are developing new non-traditional mechanisms for guaranteeing loans and ensuring repayment through peer evaluation, sharing risk, and using local references and new guarantees. These mechanisms include practicing solidarity lending (PRIDE, PCAR, and WWB/Ghana), getting suppliers to accept part of the risk on the loan (EDF/Senegal), and vetting the client in his community (ACEP). The projects tend to reduce bureaucracy in the process, as CARE/Niger has done by reducing its application from 15 forms to 5.

Despite the reticence of the banks to participate in MSE programs, there has been some learning by the formal banking sector in Mali and in Cameroon about lending to MSEs. Several projects have instituted procedures that have made their work easier. These procedures include identifying carefully selected client criteria (ACEP), being rigorous in the loan approval process (ACEP, CCEY, PAPME), and working in an area that has benefited from infrastructure development and individual investments and is therefore leveraged by the improved environment (EDF/Senegal).

Projects are increasingly assuming the role of financial intermediaries by adding savings components to increase their available capital and serve as an additional guarantee (blocked savings) for the borrowers.

Weaknesses

Some weaknesses emerged from the case studies that should be addressed in future projects. There are still relatively few linkages with the surrounding formal economic systems. MSE programs have limited access to capital from the formal financial sector.

There are also problems with client and market identification, leading to mixing objectives. Institutions that try to lend to dissimilar clients (both large and small firms) often encounter problems adapting the financial tools to meet the varied needs of the different scales of enterprises being financed.

A few of the guarantee programs still need rethinking. The voluntary loan guarantee contribution programs such as the Société de Caution Mutuelle instituted by the two EDF projects have had little success compared with the forced savings guarantee process. EDF/Senegal now employs the latter with much better results.

Finally, efficiently managing capital has not been a requirement of the projects since they have had no associated cost of capital. Therefore, few programs have instituted the systems necessary to optimize their use of capital. Most projects do not have financial systems that allow them to accurately follow their flow of funds, which is one of the most important elements in efficient credit management.

MARADI MICROENTERPRISE DEVELOPMENT PROJECT
NIGER

PROJECT DESCRIPTION

Background

The Maradi Microenterprise Development Project sponsored by CARE/Niger began in 1988 as part of USAID's Small Enterprise Activities Development Project and is now in its second phase. Funding for the second phase, primarily provided by USAID, began in August of 1991 and is scheduled to run through 1996.

The project intends to improve the standard of living for 225,000 people within Maradi Department by promoting small enterprises and providing credit, two activities that are expected to increase income and employment opportunities.

The project initially intended to achieve this through three different activities:

- Establishment of a self-sustaining rural banking system in Maradi Department;
- Provision of technical training to improve efficiency and productive capacity while introducing new products and technologies; and
- Provision of management training.

The project's focus has been narrowed to credit and training which, although supervised by two expatriate advisors, operate as distinct entities.

Underlying Concept

Originally conceived as a multifaceted project with training and financial assistance to create MSEs in rural Niger, the program focus has evolved to concentrate on creating a rural bank that practices solidarity-based lending to increase the probability of repayment while lowering the cost of evaluating and delivering the services.

The project unilaterally decided to discontinue its management training and appropriate technology (part of the technical training) programs because it found that the effort required to maintain those two activities was not merited by the meager response they produced. Participants were not willing to pay for management training, and expected customers for appropriate technology products never materialized. Furthermore, these two activities depleted project resources for credit and training, both of which have met with high consumer interest. The project did not advise or request approval from its sponsors before terminating these activities, but afterwards. This is, in fact, representative of the project's approach. It believes that it is closest to the action and knows best what direction to take. Furthermore, it uses the distance between Maradi and Niamey (and Washington and New York) as a convenient barrier to insulate itself from what it believes might be well-intended interference in its program activities by its sponsors.

Because the remaining two components of the Maradi project are distinct, they are discussed separately.

CREDIT PROGRAM

The Maradi project's credit program is distinguished by its delegation of responsibility; focus on profitability; minimizing of bureaucratic procedures; strong, centralized financial controls; and systematic collection of repayments. Maradi's top priority is to transform a project into a viable, self-sustaining, independent institution. To achieve this, systems have been developed to minimize costs yet maximize loan generation and income.

Responsibility for generating loans and ensuring their subsequent performance is placed directly with the agents. Traditional loan analysis is minimal, with the agent's personal assessment of the client and the client's contractual pledge to repay the loan taking the place of titled, physical collateral. The agents, in discussion with their clients, determine the amount and term of the loan. The interest rate is determined by the project through negotiation with the Government of Niger and is currently fixed at 18 percent. Each agent has a table that lists monthly repayments for varying loan amounts and terms, which eliminates the need to calculate repayments.

The project (or "bank" as it calls itself) makes individual and group loans for any legal purpose. The bank does not currently keep tabs on traditional financial and statistical indicators such as average size and term of loans, current loans outstanding, or actual use of credit extended. However, it believes that as many as 80 percent of its loans, in both volume and numbers, are now taken up by groups. Group loans are disbursed through a single payment that then is subdivided among individuals in the group (groups range in size from 5 to 200 members). Similarly, repayments are made in single monthly deposits. The bank believes that these procedures result in significant savings.

The project's group loans differ from group loans in other small credit projects. Everyone in the group gets his or her loan at the same time. Everyone signs an individual contract with the bank, yet they are all responsible, individually and collectively, for making a single monthly group payment. Responsibility for collection from the members is vested in one or more members, and a single payment is made. Although a single loan may be made to a group, the bank counts each member as a borrower. In other words, a loan to a group of 200 members equals 200 loans the bank has made.

To date, the bank's ability to generate loans has been limited only by the projects' cash flow. The senior staff reviews the monthly cash position and then allocates that amount among the agents for new loans. This procedure effectively serves as a quota for loan sales by each agent. This amount has recently risen from 3 million FCFA per agent per month to 5 million (for a total of 65 million FCFA per month). The bank's ability to extend credit was recently increased by an addition to the credit fund of $1 million from USAID. Additionally, the bank has sold off fixed assets such as vehicles it deemed unnecessary and used the proceeds to enlarge its capital available for lending.

The bank's nonbureaucratic approach is a departure from the first phase when 15 different forms were required during the loan process. Numerous procedures and a large number of rules had to be followed about what could and could not be done, what was a legitimate purpose for a loan, etc. In the second phase, nearly all bureaucratic procedures and rules have been eliminated, with almost all decisions left to the judgement of the agent. For example, the 15 forms have been reduced to 5, the bank lends for any legal purpose, it recognizes and accepts that many of its borrowers use the funds for purposes other than stated (such as on-lending), and there are no formalized limits on loan amounts or terms (although there are in practice, see below). Furthermore, the bank relies on the client/agent relationship as well as the client's contractual commitment to repay rather than on titled physical collateral. One of the bank's few formalized rules is a prohibition on extending loans to government functionaries. This is done to restrict the typical problems of influence peddling and willful defaulters. It is also a Government of Niger requirement.

OPERATIONS

Loan dossiers are developed through direct contact with the credit agent. The agent currently has a monthly budget of 5 million FCFA. Generally, any loan approved by the agent is automatically approved at the central office, although large loans (more than 150,000 FCFA) may be reviewed or even visited by the director of credit. Each borrower signs a contract in which he pledges to make timely repayments and that allows the bank to attach any assets or income in the case of nonpayment. Only in unusual cases or for particularly large loans does the bank require titles to specific physical collateral. The bank believes that the contract and the promise of additional loans in the future for reliable clients are sufficient inducements for prompt repayments. (Curiously, the bank does not track the number of repeat borrowers.) The agent lets borrowers know that the credit is not a gift (as has been the local tradition of development projects) and that they will get only one chance. If borrowers do not pay back, there is no chance for future involvement. The bank also believes that requiring deeds would unnecessarily slow down the loan process. Generally loans are approved and disbursed in a six- to eight-week process.

Loans are disbursed at predetermined times to multiple borrowers to minimize time spent by staff and the risk of theft. Although the agents may visit their clients during normal patrols, it is the responsibility of clients to report monthly payments to the agent, not the agent's to confirm with the clients. Loan repayments begin the first month after disbursal except for some equipment loans where the borrower may get a maximum grace period of one month.

Loans are repaid through the postal banking system. Clients pay the postal fees, which run about 85 FCFA. Normally, after making payments, clients present their postal receipts at the agent's office (to the secretary). The agent sends a monthly statement to the central office that is checked against the collection report generated by the post office. The computerized client database is then updated. This system provides several cross-checks for error correction and keeps the agent up-to-date on any delinquent accounts. The system also prevents any individual bank employee from handling cash because disbursements are done together with the director of credit and collections are done by the post office. During the first phase of the project, all records were maintained by hand. The bank believes it has achieved significant cost savings as well as much quicker reconciliation of accounts by becoming computerized (with two IBM PCs using Lotus and a small bank program).

Any nonpayments and arrears are acted upon swiftly by the loan agent. Agents are aware that loan performance is the key factor in both evaluation of their performance and in determining quarterly bonuses for the entire credit program staff. The agents currently receive a monthly gross salary of 155,000 FCFA (including 45,000 FCFA for housing and transportation). The manager makes 175,000 and is due for a raise to 200,000. These are a very good salaries in Niger, and managers generally choose not to compromise them by extending credit to unworthy clients or through underhandedness. Additionally, the bonus program, newly devised, pays up to 20 percent of the staff's salary depending on the bank's overall performance. These factors plus the bank's continuous emphasis on profitability and placement of responsibility with the agents are what management believes accounts for the low delinquency rate. Because the bank relies on the postal service for its collections, there is often a 30- to 45-day delay in updating its accounts as information travels from the local post office to Niamey and then back to Maradi. Any loans more than 60 days in arrears are acted upon swiftly, first through visits by the agent and then through more formal, legal processes.

The program has a head office in Maradi that is separate from the several other programs CARE/Niger runs in the department. Agents initially ran their offices out of their homes, but more and more are now establishing formal offices staffed by secretary-bookkeepers whom the agents currently pay from their own earnings, but who are slated to become bank employees. Two of the 13 agents are located in Maradi itself; the others are all within a two-hour drive of the town. Each covers an area of not more than 30 kilometers in radius. The bank holds a monthly meeting at which issues are discussed. Most policies are determined by group consensus.

RESULTS

As mentioned above, the bank does not yet collect information in a way typical of most banks or credit programs. It essentially operates on a cash-flow basis, determining how much it can lend as a function of how much comes in. Although repayments vary from 80 percent to 100 percent (because of prepayments), the bank believes that lower repayment levels in some areas are actually caused simply by delays in the postal accounting system. The bank counts actual delinquencies as loans more than 60 days in arrears. Since the advent of the first phase, the bank has written off only 1,000,000 FCFA as bad debt and currently has no formal procedure for either building a bad debt reserve or determining when a loan becomes uncollectible. The bank believes that, as long as delinquencies represent a small portion of its portfolio, it can track these individually.

Although the bank does not have any formal rules on loan size or term, it believes most of its loans are small (less than 150,000). Information about all loans (group and individual) is in the bank's computer, but has not been analyzed. The bank's largest loans have been 3 million FCFA.

The bank estimates that it has very few loans with terms over one year, most loans ranging from 8 to 10 months or 3 to 5 months depending on the time of year. Again, the bank believes that these short terms diminish the importance of maintaining typical statistical information.

The bank believes that its most successful borrowers are in trade and food processing, though this is unsubstantiated because they do not keep statistics. Its less successful loans, as judged by those who have difficulties repaying, are in equipment manufacturing.

The bank has yet to be audited, but says that through March 31, 1992, it has achieved the following (in phases 1 and 2):

Total disbursed:	409,072,820 FCFA in 5,361 loans
Amount earned:	14,476,330 FCFA[1]

The bank also claims a 95 percent repayment rate for phases 1 & 2, calculated as amount paid during the period divided by the amount due. The bank also factors in prepayments, lessening the impact of late payments on this figure.

Unfortunately, the bank does not know how many of its loans were given to the repeat borrowers and it is, therefore, unclear exactly how many people the bank has reached through its credit program. The bank simply tracks how many loan dossiers it has approved, not how many are repeat or new borrowers.

A statistic the bank does follow closely is cost coverage. It estimates, for example, that in 1992 its operating costs will be approximately 50,000,000 FCFA. By the end of March 1992, the bank had recovered 35 percent of its annual costs (beginning with Phase 2).

The bank also follows up on the economic and social impact of its loans by randomly sampling 48 different borrowers in four different arrondissements each quarter. From these surveys, it has concluded through extrapolation that by March 31, 1992, for Phase 2, it has achieved the following results:

New enterprise created	1,716
New jobs	2,344
Loans disbursed	4,548
Persons trained in technical and management classes	384
New products or technologies introduced	3

[1] These are the figures claimed by the project; however, there are no true financial statements to verify this. An 18 percent declining balance interest rate on 400 million FCFA will only generate a total of about 40 million FCFA in revenues, assuming that all loans were for one year (which they are not). Four years of project operation have cost significantly more than the 26 million FCFA that a net earning of 14 million FCFA implies.

Other significant data on the results of the project include the following:

Total Budget:	$7,000,000 (life of project)
Credit Fund Amount:	$2,900,000
Cost of Funds:	0% (donor-supplied funding)
Total Lent/yr:	Phase 1 (3 years) - 96,717,810 FCFA in 813 loans
	Phase 2 (June 1991-March 1992) 312,355,000 FCFA in 4,548 loans
Number of Loans:	5,361 to date (March 1992 ending) in phases 1 & 2
Loan Portfolio:	500,000,000 FCFA (estimate, June 1992)
Repayment Rate:	Ranges between 92% and 95% — figured on amount paid over amount due for period. Does not include amounts already overdue from prior periods and includes prepayments (some loans have repayment rates >100%)
Delinquency Rate:	Approximately 1% of total loan volume estimated to be more than 60 days overdue or approximately 5,000,000 FCFA (this is only the amount of payments that is overdue, not the principal of the overdue loans)
Interest Rate:	18% calculated on a declining balance. Total amount of principal and interest divided by length of loan to create equal monthly payments. 2% late payment penalty assessed on late payments. No up-front fees.

STRENGTHS AND WEAKNESSES

Strengths

The program's greatest strength is its promotion of initiative at the most decentralized level. By placing responsibility for loan generation and recovery directly with the agents, it ensures a high level of loan performance. The agent can always say no to a bad loan.

By reducing bureaucratic procedure, the bank ensures a low level of idle funds and strong cost containment, which all flow to the bottom line. The bank and its employees also recognize that external funding will come to an end and that to sustain their jobs, they must maintain a common vision on profitability. This unifying vision has led to a radical streamlining of procedure while maximizing loan generation and portfolio performance. Everyone tries to run the project with a businesslike approach.

Working in the Maradi region is a major asset. Apart from Niamey, Maradi is the primary economic center of Niger. Its proximity to the Nigerian border and its relatively fertile agricultural area give it a strong trade and agricultural base. Furthermore, local custom has a strong bias for making good on one's debts. The current overvaluation of the FCFA with the Nigerian Naira (see below) also helps bolster profitability in trading.

An important strength is the management team. The expatriate advisors (particularly the chief of party) were praised uniformly for sensitivity, flexibility, and commitment to seeing the project stand on its own.

Weaknesses

Other than internally generated revenues (claimed to be 14.4 million FCFA through March 31, 1992), the project currently depends on external funding for 100 percent of its pool of credit. Outside credit saves it the usually costly and complex process of generating its own funds. Without a local source of funding (such as savings deposits, Government of Niger subscription of capital, or sale of shares), the project will not truly operate as a bank that must manage liabilities and assets. The project currently is considering various options for generating a source of funds not dependent on the international donor community.

The bank's flexibility — its lack of bureaucratic rules — appears to work well now, but may not as it continues to expand to meet demand. It estimates that it has tapped only 2 percent of the demand for small credit in Maradi Department. At 10 or 20 times its current size, the bank will be compelled to monitor performance in more traditional ways.

Unlike many other countries, Niger currently has a 0 percent or even negative inflation rate. This rate helps preserve the capital in the loan fund but could be reversed should the FCFA depreciate.

INSTITUTIONALIZATION

This project has four more years to run, but management wants it to become freestanding as soon as possible. To achieve this, management has identified four areas in which the bank must be truly freestanding:

- Finances;
- Legal and government relations;
- Administration and management; and
- Funding.

As noted above, in the financial area, the bank is moving as quickly as possible to become profitable, maximizing cash flow and its own internally generated funds. It is also investigating other funding opportunities. The current interest rate of 18 percent corresponds to an imputed cost of operations of approximately 15 percent. (Although this three-point spread is significant, it does not account for the cost of capital. The bank's pro forma does, however, indicate a 3 percent annual write-off for bad debt.) Imputing that cost, which eventually must be included, would result in a negative spread. Including that cost would eliminate "profitability" but would still leave the bank in a strong positive cash-flow position while building reserves for totally independent operations in the future.

The bank has negotiated with CARE/Niger and the Government of Niger and is now determining what legal structure will serve it best as an independent entity. Structures under consideration are an institution mutually owned by depositors, a private institution owned by the employees, or some type of nongovernmental organization. The government has already concurred with CARE/Niger's desire to create an independent organization and has committed itself not to interfere.

Administratively, the bank is, as noted, rather informal. Rules are evolving to ensure that the bank has full information about its activities with no possibility for graft. CARE/Niger would like to retain some type of consulting relationship with the bank after its spin-off to maintain a high level of performance. The project's expatriate advisor feels confident that the Nigerian staff is fully prepared to run the program without full-time outside assistance. It is difficult, however, to predict what changes will transpire after the departure of the "legitimizing" presence the expatriate may provide.

Some other issues that will affect the viability of the project include the rate of exchange with the Naira and the selection of the agents.

The bank's current performance, which appears to be healthy, may be dependent on the very favorable terms that exist for those holding FCFA along the Nigerian border. The overvalued FCFA allows bank borrowers to buy goods inexpensively in Nigeria that they can then sell at considerable profit in Niger. Should the terms of trade approach parity, then it is unclear how readily bank clients will repay their loans. However, this type of trading or arbitrage exists elsewhere in the world, and borrowers still do not repay their loans because of laxity in the programs. That the Maradi project appears to have a strong collection procedure in place should help insulate it from delinquencies if and when the relationship between the FCFA and the Naira changes.

The bank also depends on agents' ethics. It attempts to minimize underhanded activities by emphasizing the agents' collective responsibility to one another. It also makes loans to the agents so they will not be compelled to create phantom clients. However, the bank intends to establish a rotation schedule that will move the agents through the different geographic areas and prevent personal relationships from influencing lending decisions.

TRAINING PROGRAM

The training program, which now focuses entirely on technical (vocational) training, is coordinated by three full-time employees. They recruit independent trainers, advertise for courses, monitor course progress, and perform follow-up evaluations on the impact of the training programs given. The courses — in auto mechanics, tailoring, radio repair, mill repair, wood and metal working, auto electric and construction wiring — are open to all people, regardless of educational background or experience. CARE/Niger believes this is a key distinguishing factor because admission to most other training programs in Niger is credential based.

CARE/Niger's training coordinators survey the towns in Maradi Department to determine what local training needs might be. They then structure a curriculum and often run a program for a single town. Where they find insufficient demand for training, the coordinators try to interest the younger people in future training. Fees for the courses, which last from four to eight months, range from 8,000 to 12,000 FCFA. CARE/Niger noted that when it recently raised the price of the courses, interest and enrollment rose. CARE/Niger estimates that current course fees cover approximately 35 percent of their cost. Although they eventually hope to cover 100 percent of their direct costs, this goal is a long shot.

CARE/Niger also notes that paying for training encourages participants to express themselves about the quality of the training they receive. As a result, several inadequate training instructors have been released, program curricula have been modified, and CARE/Niger staff have worked more closely with qualified artisans to improve their training capability. CARE/Niger staff do follow-up with former students, but have yet to quantify the impact of its program.

A specific aspect CARE/Niger has tried to avoid is linking the training program with the credit program. Although some training graduates have received credit, completing a CARE/Niger training program does not entitle them to receive a loan.

Since January 1992 (six months), CARE/Niger recorded the following enrollments in its programs:

Auto Training	13
Tailoring for women	24
Tailoring for men	2
Handicrafts	15
Peanut oil manufacture	12

SMALL AND MEDIUM ENTERPRISE DEVELOPMENT PROJECT SENEGAL

PROJECT DESCRIPTION

Background

The European Development Fund (EDF) finances a small and medium enterprise (SME) development project in Senegal. The project was initially conceived as two separate projects: one in Podor that was to finance small-scale enterprise creation in the Senegal River Valley area, managed by the Groupe de Recherche et d'Echanges Technologiques (GRET), and one called the "Rapatriés St. Louis" project, managed by the consulting firm AXE, which was to finance business start-ups for recent returnees from Mauritania. The Podor project was set up in mid-1989 and effectively began its credit operations in December 1989, with the first loans disbursed in January 1990. The Rapatriés St. Louis project began in April 1990. After nine months of unsatisfactory performance, the technical assistance contract was transferred to GRET, and the project began anew in January 1991.

As of January 1991, both projects were placed under the supervision of one project director, based in St. Louis. Since that time, the two projects have evolved into one project, managed from St. Louis and operated from several offices.

Underlying Concept

The project was inspired by the EDF-financed small and medium enterprise development project in Mali. As in Mali, the enterprise development approach adopted was a private initiative support methodology developed in Europe. The underlying concept of the project was to develop a new class of small entrepreneurs, by providing complete credit and advisory services to potential entrepreneurs. The stated objectives of the project remain the same as at project inception: to mobilize local economic initiatives, open up financing possibilities, support enterprise start-up and development, and transfer the support network and financial system to the private sector.

In practice, the philosophy of the project has changed in some fundamental respects. Initially, the project focused on enterprise creation, which involved a considerable amount of work with inexperienced potential entrepreneurs. Work included identification of promising entrepreneurs and projects, the development of project ideas with clients, training, credit, and intensive ongoing follow-up and individual counseling. Although the project continues to work with entrepreneurs to develop their project ideas and to follow up loans, a more straightforward finance approach has been adopted. The project is effectively acting as a bank for entrepreneurs who would not normally have access to the traditional banking system.

In keeping with this shift in approach, the targeted clientele has changed as well. The project in St. Louis was set up primarily to finance recent returnees from Mauritania. Later, early retirees from the Société de l'Amenagement et de l'Exploitation du Delta du Fleuve Sénégal (SAED) were added as a specific target group. Experience has shown that these targeted populations are not necessarily cut out to be entrepreneurs, and loan repayment by these groups has not been satisfactory. Although the project continues to finance them to some extent for social reasons, they now represent only a small percentage of total clients. Project management would prefer not to finance these clients at all.

Also, although the project continues to work with new entrepreneurs, experience has shown that it is less risky to lend to clients having at least some experience in the activity they wish to finance. The project does not even refer anymore to enterprise creation and finance, but to the financing of productive activities. Two-thirds of the loans financed are in fact for agricultural production activities, rather than for traditional enterprises. The remaining loans are made for commercial activities, the majority of which existed in some form prior to financing. Thus, the definition of enterprises and the distinction between enterprise creation and enterprise consolidation or expansion have become blurred in practice.

OPERATIONS

Services

Credit is the principal service offered by the project to its clients. To reinforce the credit program and to increase loan performance, fairly extensive individual counseling is also provided to clients, from assistance in developing feasibility studies and through loan follow-up. Group training in basic business management was added as a service in mid-1991.

In addition to extensive pre-loan counseling and analysis, many safeguards have been put into place to ensure good repayment rates. Loans are often disbursed over a period of time, representing a progressive investment in the business or activity once the client's management capacity has been proven. Great importance is also placed on a tangible set of guarantees.

Initially, the project relied on Societés de Caution Mutuel (SCM), or a group guarantee system, to guarantee loans. Under this system, a client was required to bring together a group of people who would each contribute an initial amount to a guarantee fund for the client and continue to make contributions to the SCM over the life of the loan. The project could use this fund to cover nonpayments. The guarantors of the initial client were to have access to a loan after the client had repaid his loan on time. In practice, the SCM system did not work. It was discovered that the client himself was often contributing most of the initial deposit required, and the subsequent voluntary contributions were not being made.

The SCM system was therefore abolished in favor of an Association of Mutual Guarantee Funds (Fonds de Garantie Mutuelle — FOGAMU). Clients are required to pay the equivalent of 6 percent of the loan amount into the FOGAMU, a mutual guarantee fund to which all borrowers contribute. The project can draw on this fund to cover any loan losses. The 6 percent FOGAMU contribution is essentially forced savings that act as cash collateral for loans. Clients earn 8.5 percent APR interest on this money, and recover their contribution when their loans have been fully repaid. Because all borrowers contribute to this fund, the project expects that group peer pressure will play a role in ensuring good repayment rates. In addition to the 6 percent FOGAMU contribution, another 2 percent of the loan amount is paid into the Federation of FOGAMUs, which is a separate fund that will serve as the basis for developing a local financial institution, described in the final section.

A leasing mechanism is also used to secure loans for equipment. The project retains the title to equipment until the loan has been repaid and can therefore repossess the equipment at any time for nonpayment. The project pays the suppliers directly for equipment and requires a considerable additional guarantee from the suppliers themselves. A supplier must guarantee 50 percent of the amount of the equipment being financed; if the client does not pay, the supplier must reimburse the project 50 percent of the balance due on the amount of the equipment. Not only does this serve as a tangible guarantee, it ensures that the suppliers are acting as effective local references.

In the case of nonpayment, the project can also assume the role of manager of the business, and take over its management until enough profits have been made to repay the outstanding loan balance. The project is quite tough on repayment and uses the legal system when necessary: several people have been jailed for nonpayment to set an example.

Cost of Credit

Internally generated income comprises interest revenues and fees, including dossier fees and detaxation fees (for agricultural equipment financing). Interest of 11 percent APR is calculated on a decreasing balance, which results in an effective interest rate of 7 percent for a two-year loan. Dossier fees are established in relation to the loan amount: 5 percent of loan amounts up to 5 million FCFA, 4 percent of loan amounts from 5 to 10 million FCFA, and 3 percent of loan amounts exceeding 10 million FCFA. Detaxation fees are only charged for agricultural equipment loans, at 4 percent of the value of the equipment that is eligible for tax waivers.

In addition to interest and fees, the promoters also pay life insurance premiums (0.5 percent of loan amount), insurance premiums on equipment financed (2.5 percent of equipment value) and guarantee registration fees (about 1 percent of equipment value). These additional fees increase the cost of credit to the client but do not contribute revenue to the project.

Total fees are calculated as part of the total project amount and are included in the amount of the loan, but deducted up front. The project therefore recuperates its fees immediately, whereas the promoter repays the total fees over the period of the loan. Based on the fee schedule, and assuming that about 60 percent of a loan is used to finance equipment, a two-year 5 million FCFA loan for agricultural equipment costs the borrower about 13 percent APR. The effective rate to the borrower on a similar loan for nonagricultural equipment or working capital is about 11 percent APR.

Structure

Although banks are not financially involved in the project, bank structures are used to facilitate program administration. Loans are disbursed by checks drawn on local banks, and clients make loan repayments directly into project accounts at the banks.

The project is currently operating four branches — St. Louis, Podor, Richard Toll, and Ross-Bethio — with central management by the project director at St. Louis. Two more branches are currently in the start-up phase, at Ourissogui and Galoya. Management information systems have not yet been centralized, with Podor and St. Louis maintaining separate accounting and credit management systems (manual). The project is in the process of developing computerized systems that will link all branches.

The project currently employs 60 local staff and 3 expatriate staff, compared with 30 local staff in August 1991. The breakdown of the 60 local staff is 15 in administration, 15 credit officers, and 30 support staff. The breakdown by branch is as follows:

Podor	22
St. Louis	32 (including overall project administration)
Richard Toll	6
Ross-Bethio	3

The credit officers are responsible for all direct work with clients, from project identification and feasibility study preparation to loan follow-up and individual counseling. Because of the difficulties encountered with hiring full-time employees, the project retains credit officers under obligatory service contracts. Credit officers were initially paid a monthly salary of 200,000 FCFA. The project is currently in the process of reducing the base salary to 100,000 FCFA, to be augmented by bonuses based on portfolio performance. Assuming performance remains good, the effective salary would remain at 200,000 FCFA.

RESULTS

It is somewhat difficult to determine the project results in number of loans, volume of lending, and repayment rate because the project is unable to furnish up-to-date activity reports. The following table presents figures taken from internal project reports on August 31, 1991; an external (donor) audit on February 28, 1992; and project management's estimates for June 1992.

	8/91		2/92		6/92	
	No.	Amt.	No.	Amt.	No.	Amt.*
LOAN DISBURSEMENTS						
Podor	95	344.4	121	516.0	--	--
St. Louis	45	148.9	74	291.7	--	--
Total	140	493.3	195	807.7	550	--
OUTSTANDING PORTFOLIO						
Podor	95	239.9	121	391.5	--	1,000
St. Louis	45	127.4	74	253.1	--	500
Richard Toll						
Ross-Bethio	--	--	--	--	--	500
Total	140	367.3	195	644.6	550	2,000

* millions of FCFA

The June 1992 figures shown above represent project management's verbal estimates. The project has only recently hired an accountant and is now computerizing its internal management systems and installing a database to track client impact. All portfolio performance reports are currently produced by hand at the various branches and compiled at St. Louis.

The above figures indicate extraordinary growth in the last four months — the project has disbursed more than 350 loans since February 28, 1992, or almost double the number of loans disbursed in the two-year period from January 1990 through February 1992. The amount of disbursements for the period March 1, 1992, through June 1992, is more than three times the cumulative amount disbursed from project inception through February 1992.

The project attributes its significantly increased disbursements to three factors. First, the average loan amount has apparently grown from about 3.5 million FCFA to 6 million FCFA (not possible to verify from the figures provided). Second, the credit officers are now fully trained and able to operate much more efficiently, handling about 40 loans each as compared with 11 loans each in August 1991. Finally, management feels that the donor is more confident in the project now, and willing to disburse the amounts needed to meet the demand. It should also be noted that the Senegal River Valley is a rich region, apparently capable of absorbing large amounts of credit. This is because of both the government-financed irrigation projects in the area, which have increased agricultural production capacity, and to the billions of FCFA received by the region each year in remittances from Senegalese living abroad.

Portfolio Quality

The project defines repayment rates as the amount of principal repayments received for the period divided by the amount of principal payments due for the period. On August 31, 1991, the repayment rates reported by the project were 56.99 percent for the St. Louis portfolio and 97.81 percent for the Podor portfolio. In St. Louis, 15 of the 45 loans (33 percent) were affected by arrears, whereas in Podor, only 9 of the 95 loans (9.5 percent) showed late payments. Management reports that the overall repayment rate for the project is now at 98 percent. Not all loans are being included in that figure, however. Loans made to the initial target groups have performed poorly, and because project management considers these to be social loans, the repayment performance of these loans is not included in project totals.

According to management, the loans made to the initially targeted populations of returnees from Mauritania and early SAED retirees show repayment rates of about 70 percent and 80 percent respectively. Apparently 200 million FCFA is still outstanding on the rapatriés' loans and 10 million FCFA on early retiree loans, representing 10 percent of the current outstanding portfolio. If these figures are accurate, the overall repayment rate would be at 95.7 percent. The number of loans affected by arrears at June 1992 is not known.

Portfolio Characteristics

The characteristics of the portfolio are as follows:

Average term of loan:	24 months
Overall use of loans:	60% equipment; 40% working capital
Sector of activity:	67% agricultural production; 33% commercial activities

The project lends to both individuals and Groupements d'Intérêt Economique (GIEs), or group enterprises. The majority of loans are to finance agricultural production rather than enterprises. As mentioned earlier, the project itself now refers to the financing of productive activities rather than enterprises. Very few loans have been made to women so far, but the project now sees more women coming to ask for loans, primarily in the commercial sector.

In August 1991, the project reported 507 jobs created. At present, the project is in the process of developing a computerized database to track client impact, and could not give an updated figure for the estimated number of jobs created. In management's opinion, it is difficult to define employment and to estimate the true number of jobs created. Most of the agricultural projects financed, for example, create an important number of jobs during the growing season, but these cannot be considered as permanent employment.

STRENGTHS AND WEAKNESSES

Strengths

If the figures provided in June 1992 are accurate, the project has been successful in disbursing a significant amount of money to small economic operators who do not have access to the traditional banking system. Again, if figures are correct, the project has been successful not only in distributing large amounts of credit, but also in ensuring that the credit is repaid. Its strength in this respect would seem to lie in the adoption of a professional banking approach to its clients, and a move away from the softer development approach.

The project sees its primary strength as ensuring the economic interest of all parties in its success: the clients, through the tangible guarantees they offer against loans; the suppliers, through their guarantee; and increasingly, the credit oficer, through the recently established incentive system.

Part of the project's success can certainly be contributed to the move away from enterprise creation and targeted lending. Project management is no longer concerned with creating and financing new enterprises, which are quite risky undertakings. Instead, one of the project's strengths is helping economic operators in the area develop and expand existing productive activities.

Another of the project's strengths is having chosen to work in an area that has benefited from significant infrastructure development. The government has financed large-scale irrigation projects in the Senegal River Valley, increasing agricultural production capacity and available markets. The region is capable of absorbing large amounts of credit.

Weaknesses

Perhaps the major weakness of the project at present is its lack of systematic and integrated internal accounting and portfolio management systems. The branch at Podor still maintains an accounting for loan activity separate from that of St. Louis, although the project is now being treated as one integrated project. The Podor loan portfolio represents half of the total outstanding portfolio, and lack of up-to-date information must seriously handicap adequate portfolio management. The fact that all accounting and reporting are done by hand also hinders the preparation of timely reports, necessary to manage and control loan disbursements and portfolio quality. The lack of an internal accounting system threatens plans to institutionalize the project. The project is conscious of this weakness and is in the process of developing an internal accounting system and computerizing its management information systems.

The project is currently charging below-market rates of interest that negatively affect its financial sustainability. Even with a portfolio of 2 billion FCFA, project management estimates that only two-thirds of local operating costs are being covered by project revenue. All costs of expatriate assistance are being covered by EDF grants. The project is operating with no current cost of capital, and with the low interest rates being charged, no future cost of capital is being taken into consideration. The apparently low level of financial sustainability represents a significant weakness.

FINANCIAL VIABILITY

Given the lack of an internal accounting system, and financial management that is done on a project rather than an institutional basis, it is difficult to ascertain the financial viability and cost-effectiveness of actual operations. In August 1991, the project had estimated that with an annual credit volume of 500 million FCFA, local operating costs would represent 18 percent, or 90 million FCFA per year, including a 2.5 percent provision for bad debts but no cost of capital.

Although current figures are not available, project management estimates that with an outstanding portfolio of 2 billion FCFA (much of which has been recently disbursed), the project is covering two-thirds of its local operating costs. The EDF is now providing an operating subsidy of one-third of local costs. It is not clear if all costs, such as depreciation and loan loss reserves, are being included in the calculation of operational costs. It should be noted that one-half of all interest earned on the portfolio is being put into the Federation of FOGAMUs account and not being used to cover operating costs. The project is bearing no cost-of-lending funds. Monthly cash outlays for expenses are now on the order of 10 million FCFA per month according to project management. It is not clear what lending volume would be necessary, with the current revenue and cost structure, to break even.

INSTITUTIONALIZATION

To ensure the long-term sustainability of the program, two options are being explored to create a local financial institution: an investment company combined with a financial insurance company, and a leasing company.

The Federation of FOGAMUs plays a role in both scenarios. The Federation of FOGAMUs is currently only a bank account in which the 2 percent fee being contributed by each borrower is being deposited. In addition to the borrowers' contributions, the project is depositing 50 percent of interest earned on loans into this account, and the account itself is earning 8.5 percent interest A.P.R. Because all borrowers are contributing to this fund, they will be considered as shareholders in the future legal structure that is created from the federation.

The EDF is thinking in terms of an investment company, financed entirely by EDF. EDF wants to maintain the position of majority shareholder, but as an external donor cannot do so. Technically, the Senegalese government would own 100 percent of the shares, but the EDF envisages a structure under which the government would retrocede all shares to EDF as a trustee. In addition to this investment society, EDF foresees turning the current federation of FOGAMUs into a financial insurance company, which would provide the guarantee for repayments of loans made by the investment company. All borrowers having contributed to the federation would become shareholders in this company, creating a mutual interest in maintaining good repayment rates.

Project management is exploring a slightly different scenario. It would like to create a leasing company to continue the credit operations after the project ends. Under this scenario, the money already accumulated in the Federation of FOGAMUs would be leveraged to create the capital for this new company (to be called SENEGALEASE). There is actually some 50 million FCFA in this account, which in a sense belongs to all promoters who have borrowed money from the project, and would therefore constitute their share capital. Based on the funds actually available, project management hopes to convince EDF, BICIS (the local bank with which the project works), and a group of local private investors to contribute another 50 million FCFA each. These contributions would bring the total capital of the new company to 200 million FCFA. Based on this capital, management hopes to leverage substantially larger credit lines from various donors and banks for on-lending to clients.

In all scenarios currently under consideration, expatriate technical assistance would continue to be required. Although project management feels the management capacity exists locally, outside personnel would be needed to resist the social pressure to disburse inappropriate loans.

SMALL AND MICROENTERPRISE DEVELOPMENT PROJECT
MALI

PROJECT DESCRIPTION

Background

The PAPME project in Mali is a five-year program being financed by CIDA to support the creation and development of micro- and small-scale enterprises. In late 1989, the Société de Développement Internationale Desjardins began a preproject development stage. During this phase, two loans were approved. In September 1990, the Canadian firm CRC SOGEMA took over the implementation of the project. The project is currently scheduled to end January 31, 1995, but project management believes a second phase will be necessary.

CIDA is providing a total grant of C$4.9 million to cover project operating costs. C$4 million of this budget is available for the 52-month period of project implementation assured by CRC SOGEMA. Of this amount, approximately C$2.6 million is budgeted to cover the cost of expatriate technical assistance, and C$1.4 million to cover local operating costs.

In addition to the operating budget, it was expected that a total of C$10 million would be made available for loans to micro- and small-scale enterprises. The Government of Mali is contributing the equivalent of C$5 million to the project in counterpart funds generated from the sale of Canadian wheat given as grants. Local banks were expected to contribute lending funds from their own resources for an equivalent amount.

Underlying Concept

The overall goal of the project is to contribute to economic development and employment creation in Mali through support to the private sector. The principal objective is to promote the creation and development of micro- and small-scale enterprises.

The underlying project concept is that inducing local banks to contribute to the financing of micro- and small-scale enterprises will integrate banks into private sector development. The project works primarily with new businesses and is introducing an entirely new clientele to the banking system. PAPME sees its role as not only demonstrating to the banks that this new clientele is "bankable," but educating entrepreneurs about the banking system.

OPERATIONS

The project provides training, technical assistance, and loans to micro- and small-scale enterprises. Project staff work intensively with potential clients prior to loan approval to carry out feasibility studies, undertake technical research on production processes and equipment, provide basic management training, and put together a complete dossier for financing. The project also provides regular follow-up services to clients after financing has been approved.

The project has calculated that it takes a project officer an average of 9.5 days to put together a new dossier, excluding the technical research necessary for most projects. Using a figure of 200 effective working days per year (in direct client contact), the project estimates that each project officer could prepare 21 new dossiers per year, assuming no loan follow-up. Loan follow-up, however, is also a labor-intensive activity. The project estimates that an enterprise financed under the project will require 1 day of follow-up in the first month following loan approval, 0.75 days in the second month, and 0.66 days for all subsequent months.

A protocol has been signed with the BIAO that provides for the cofinancing of dossiers prepared, analyzed, and presented by the project. The bank may finance up to 50 percent of each project, but has the right to refuse projects and to finance a smaller percentage of any given loan. To facilitate the cofinancing process and to help the bank better understand micro- and small-scale businesses, the bank has seconded two of its own credit officers to the project. These credit officers are learning techniques used by the project in working with new small businesses. They are also able to bring the bank's point of view to the project. In addition, project representatives participate on the bank credit committee that makes final decisions on loan approval.

The project and the bank limit their risk in several ways, in addition to ensuring good quality projects through extensive preloan screening. The project orders all equipment for the promoters and pays suppliers directly. Promoters receive only small amounts of cash for working capital needs. The bank takes tangible guarantees to cover 100 percent of its risk, and to cover a portion of the project's risk, in the form of liens on equipment or mortgages on property. PAPME is also depositing 20 percent of its share of all principal and interest repayments into a guarantee fund, that can be drawn on to cover losses.

Different interest rates are applied for the two client groups. Small enterprises (PMEs) are charged 12.75 percent APR, and microenterprises (those that belong to the secteur non-structuré, or SNSs) are charged 14 percent APR. Interest is calculated on the basis of a 340-day year, however, which makes the true nominal rate about 12 percent for PME loans and 13 percent for SNS loans. Interest is calculated on a decreasing balance basis, with equal loan installments (principal and interest) after the grace period. In addition, there is an interest tax equal to 15 percent of the interest payment. The effective interest rate, taking into account the method of calculation and the interest tax, is about 9 percent APR for a two-year PME loan and 10 percent for microenterprises. No other fees are currently charged to the client.

Of total project interest revenues, 20 percent are being used to build a guarantee fund as noted above. The remaining interest is reinvested in the lending fund. No project revenues are being used to cover operating costs.

PAPME operates only one office in Bamako and employs 20 local staff in addition to 3 expatriate staff. Local personnel include 1 deputy director, 4 department directors, 8 project officers, and 7 support staff.

The project is supposed to operate autonomously, in close conjunction with the BIAO. The level of Malian government intervention in direct project operations has been reduced considerably since March 1991. However, there apparently continues to be considerable pressure from both the government and CIDA to increase the number of loans processed and to adopt what is perceived by project management and the bank as a development approach rather than a professional banking approach.

RESULTS

The initial project design anticipated that PAPME would finance 200 small enterprises and 700 microenterprises during the life of the project. Current project management has determined that it is not possible to reach these target figures, given that the project only finances businesses in the Bamako area and given the level of preparation and follow-up work with clients needed to ensure quality loans. Management has proposed new target figures of 176 small enterprises and 129 microenterprises.

Below are comparative project results for the period from project inception to March 31, 1991, and for the period April 1, 1991, through March 31, 1992.

LOAN DISBURSEMENTS									
	Through March 31, 1991			April 1, 1991- March 31, 1992			Cumulative		
	PME	SNS	TOT	PME	SNS	TOT	PME	SNS	TOT
Files opened	118	21	139	72	59	131	190	80	270
Files financed	12	0	12	19	8	27	31	8	39
Loans to women	1	0	1	1	4	5	2	4	6
Loans to men	11	0	11	18	4	22	29	4	33
Amount approved*	195.6	0	195.6	236	23.1	259.1	431.5	23.1	454.7
Average loan size*	16.3	0	16.3	12.4	2.9	9.6	13.9	2.9	11.6
Projects started	10	0	10	7	3	10	17	3	20

* millions of FCFA

It should be noted that the line items "files financed" and "loans approved" represent only loan approvals. Of the 39 projects financed, only 20 have effectively begun operations. The start-up time for the average enterprise financed is five to eight months, to allow time for the ordering, arrival, and installation of equipment. Of the total of 454.7 million FCFA approved, only a portion has actually been disbursed to the enterprises that have started operations. It should also be noted that the 39 loans approved actually represent loans to only 31 enterprises, as 4 enterprises have benefitted from multiple loans.

The number of loans approved more than doubled in the one-year period from April 1, 1991, to March 31, 1992, compared to the period from project inception to March 1991. The volume of lending for the same period increased by only a little more than 25 percent, partly because the project began lending to microenterprises in the last year. The volume of projects approved remained low, however, given that there were eight full-time project officers. This finding probably reflects both the learning curve of the project officers and the lengthy and labor-intensive nature of the work done with entrepreneurs. Also, because of the administrative procedures followed by the BIAO, the bank apparently has only enough capacity to approve three to four loans per month.

Bank Participation

PAPME has so far been unable to meet its objectives for bank participation. Initial project design foresaw the local bank(s) financing a full 50 percent of all loans granted. The portion of loans actually financed by the BIAO from its own resources is lagging significantly behind expectations. Fourteen of the 39 loans have been financed entirely by the project's counterpart funds with no participation from the BIAO. Bank financing on the remaining 25 loans has varied from 30 percent to 50 percent Of the 454.7 million FCFA loan amounts approved, the BIAO has only financed 118.9 million FCFA, or 26 percent.

It is not entirely clear why the bank continues to be hesitant about participating in the financing. The bank seems wary of what it perceives to be increasing external pressure to disburse loans faster, sacrificing quality for quantity. On the other hand, the bank has expressed satisfaction with the repayment rates and the quality of the loans made.

PAPME has, however, been approached by two other banks about the possibility of collaboration. The Banque Malienne de Crédit et Depot (BMCD) will soon be receiving a line of credit from the African Development Bank for financing small and medium enterprises. The bank will develop a list of local consulting firms capable of helping entrepreneurs develop their feasibility studies and possibly be responsible for some loan follow-up. The BMCD would like to use the PAPME unit as one of the local research bureaus. The Bank of Africa (BOA) has agreed to finance several of the projects being developed by PAPME on a trial basis. If loan performance is good, PAPME hopes to enter into an agreement with the BOA similar to the existing agreement with BIAO.

Portfolio Quality

PAPME figures show an overall repayment rate of 92.02 percent — 100 percent for microenterprises and 91.74 percent for small enterprises. These figures compare favorably with the project objectives of 90 percent for microenterprises and 95 percent for small enterprises. The project calculates repayment rate as the repayments received for the period divided by the repayments due for the period. The 8 percent late payment rate reflected in the small enterprise group represents one late payment on one short-term loan. The actual amount of the outstanding portfolio was not provided.

It should be noted that the above rates only reflect repayment by the 10 enterprises that have actually begun repaying loans. The remaining 10 enterprises that have begun operations are still in grace periods on their loans. It is therefore too soon in the overall project cycle to assess the quality of the portfolio or to predict what repayment rates may be when all loans have been disbursed, all enterprises are truly operational, and loan payments begin coming due.

PORTFOLIO CHARACTERISTICS		
	Microenterprises	Small Enterprises
Loan amounts	1-3 m FCFA	3-50 m FCFA*
Loan term	12-18 months	up to 48 months
Grace periods	usually none	6-12 months
Overall use of loans	working capital	mainly equipment
Sector of activity	commerce/service	production

* One enterprise has received more than 50 million FCFA, through two separate loans totaling 73.5 million FCFA.

m = million

STRENGTHS AND WEAKNESSES

Strengths

One of the project's major strengths lies in its knowledge of the small industry sector's technical needs and productive capacity and its understanding of the sector's financing needs. Project management and staff specialize in this area.

In addition to the unit's technical capacity, the close relationship built with clients is a key to its success to date. PAPME staff get to know clients very well during the lengthy project preparation process, and indeed clients feel that they may call on project staff day and night to help resolve problems.

Although BIAO participation has not occurred at the level anticipated, bank staff feel that they have learned a lot about working with small enterprises. The credit officers seconded to the project are learning the techniques of working with this new clientele, and the bank overall has learned the importance of looking not only at the numbers but at the promoter himself. The project's link into the banking system, both with the BIAO now and with the BMCD and the BOA in the future, is potentially one of its most important strengths.

Weaknesses

Although the very labor-intensive work with clients seems to be one of PAPME's strengths in ensuring high-quality projects, the high cost of this work also makes it one of the project's major weaknesses. Clients are not currently charged for the costs of project preparation and loan follow-up. Because all project costs are subsidized, this is not a current problem for PAPME, but it has consequences for the potential replication of services to small enterprises once the project has ended.

The project seems to have been designed to try to serve too broad a spectrum of enterprises. Microenterprise financing and small and medium enterprise financing are two very different things. PAPME currently has little capacity to work with microenterprises because staff is specialized in formal sector small industry development. It is trying to apply inappropriate techniques to microenterprise financing. It is also not being realistic in expecting the formal banking system to finance microenterprises directly; even the small industry sector, with loans up to 50 million FCFA, represents an entirely new clientele for local banks. It has recently been agreed, in fact, that the bank will not participate in future financing of the microenterprise projects prepared by the project.

Donor and government pressure to adopt a development approach to financing micro- and small-scale enterprises rather than a more professional banking approach is currently one of the project's major weaknesses. If the project is to achieve its objective of inducing banks to assume the responsibility of financing this sector, the project must use a banking approach. The bank's fears of quantity over quality are probably well-founded.

FINANCIAL VIABILITY AND INSTITUTIONALIZATION

The project was not designed to become an institution itself, and has no plans to do so. It is therefore not concerned about covering costs. All operating costs will be covered 100 percent by CIDA for the life of the project. It is due to PAPME's work with clients, however, that the BIAO has been willing to finance loans at all. If micro- and small-scale enterprises are to continue to have access to bank financing after the project has ended, it is therefore necessary to look at the real costs of providing these services, and to determine how they will be provided and who will pay for them.

Overall operating costs for the project are budgeted at C$4.0 million, or 800 million FCFA (at the current exchange rate of 220), for an annual operating budget of 203 million FCFA. Of this amount, 68.6 million FCFA is used to cover local operating costs, exclusive of depreciation. Calculated on the basis of local operating costs only, the 27 projects approved this year cost 2.5 million FCFA each to prepare and follow up, as compared to an average loan amount of 9.6 million FCFA. To reflect true costs, however, it is necessary to include the cost of the expatriate technical assistance, without which local staff would not currently be able to provide services (especially in the area of technical research). Including the costs of technical assistance for the year, each project cost 7.5 million FCFA to prepare. If the project achieves its current objective of processing about 80 projects per year, these costs would drop to 0.9 million and 2.5 million FCFA respectively.

PAPME plans to ensure the continuity of services to micro- and small-scale enterprises after the project ends by preparing other local institutions to take over its various roles.

Because of the labor-intensive nature of its work with clients, the project will not be able to handle the expected project load in the coming years. It is therefore foreseen that PAPME will begin charging a flat fee of 100-125,000 FCFA per file for dossier preparation and loan follow-up, and subcontract a portion of the work to local consulting firms. The project will finance this cost as part of the loan package. PAPME hopes that by working with and training local firms to do this work, it will be able to continue to provide adequate services when the PAPME unit is dismantled. (The Government of Mali and CIDA apparently oppose this plan and would prefer that the project hire additional staff necessary.)

PAPME has already entered into discussions with several local firms that are willing to take on several dossiers on a trial basis, at the fee level proposed by the project. Given PAPME's actual costs of delivering quality services, it is not apparent that the new fees proposed would ultimately be attractive or realistic for private firms. In addition, PAPME has by now accustomed entrepreneurs to receive high quality services for nothing. Even if fees were to be financed by the loan in the end, it is not clear that businesses would be willing or able to pay. Finally, the idea of subcontracting follow-up work to private firms has its limits. Part of the project's success is the close relationship it builds with its clients. If project preparation and follow-up are taken on by a different institution than that providing the loan, project effectiveness will be affected negatively.

The more formal training for entrepreneurs, which the project has only recently begun to develop, will be taken over by a newly created local private company, ACFOR. This company has been financed by PAPME already. The exact nature of the training to be provided and the level of fees to be charged to entrepreneurs is not known.

It is still apparently anticipated that the banks will completely take over the financing function after the project ends, although the level of bank participation so far does not indicate that banks will be willing to do so.

ENTERPRISE CREATION PROJECT
MALI

PROJECT DESCRIPTION

Background

The small and medium enterprise (SME) and job creation project referred to here as EDF/Mali was originally conceived as a component of a much larger project financed by EDF to support the Government of Mali's food strategy. EDF financing of SMEs was intended to support two distinct subprojects — creating new enterprises in the secondary towns of Ségou and Sikasso and assisting young graduates in starting agricultural activities in the Bamako area.

These two subprojects began on a pilot basis in September 1987. The pilot phase was funded at 2.8 million European Currency Unit (ECU), of which 1.4 million was available for loan funds. The 1.4 million ECU line of credit was not put into place as foreseen in November 1987, and the project had to look for bridge financing from other sources. It had also been anticipated that local banks would finance the projects developed by the project, but the banks pulled out at the last minute. The project therefore had to develop its own credit systems. Due to these delays, the first loans were made in May 1988. Following a midterm evaluation in October 1988, the project was extended through December 1991, and additional financing was granted. As of December 31, 1991, a cumulative total of 13.2 million ECU had been financed by the EDF, of which about 7.3 million ECU was for loan funds.

The project's second phase, from January 1992 through December 1994, is now under way. Total financing of 12 million ECU has been approved for this phase, of which 7 million ECU is to be used for loan funds. Project duration will be 7.25 years, for a total financing package of 25 million ECU, including 14 million ECU in loan funds.

During the pilot phase, project implementation was assured by two European consulting companies — Dhonte and Associates and SORCA. In September 1989, both of these companies withdrew, and management was turned over to two individuals who had been consultants with these firms.

Underlying Concept

In the original terms of reference, the project was to be inspired by a private initiative support methodology developed in Europe. In its pilot phase, one of the objectives was to transfer this enterprise creation methodology to Mali. The project was intended to provide only nonfinancial support to potential entrepreneurs in developing project ideas, and to work with existing banks to finance the new enterprises created.

With the May 1989 proposal to provide additional financing, more concrete goals were established, including the creation of 600 new micro- and small-scale enterprises through the establishment of local support units and the expansion of project activities to Mopti. The underlying concept of the project remained the same — to transfer a European model of enterprise creation to Mali. Project objectives were to research enterprise creation opportunities and to develop the tools and train the local staff necessary to create enterprise support units. Because the banks declined participation in enterprise financing, the project had also assumed the role of a financial institution, directly financing the projects it helped to develop.

An external evaluation undertaken by IRAM for the EDF in June 1991 recommended that the primary mission of the project remain the development of the entrepreneurial spirit and the creation of profitable enterprises. Employment creation was seen as one of the most important direct consequences of this primary mission. Project management concurs to some extent with this statement of mission, considering the creation of a new class of entrepreneurs to be the project's primary objective.

In practice, a number of changes in approach have been adopted. Initially, the project targeted only the creation of new enterprises. In the Bamako area, the target population was even more narrowly defined — young graduates wanting to create new enterprises, particularly in the agricultural sector. Early civil service retirees were added to this target group. The project found that young graduates with no experience and little capital, and civil servants who have spent their professional life developing bureaucratic skills are not necessarily entrepreneurs. It also found that financing start-up enterprises in general is quite risky.

Extremely low repayment rates among the initial target groups has led project management to redefine its selection criteria. Although the project is still open to working with potential entrepreneurs of all kinds, special preference is no longer accorded to any particular target group. In 1989, the Bamako branch opened its services to all entrepreneurs, not just young graduates. Although most loans granted to date have been for the creation of new enterprises, the project is now moving toward the consolidation and development of existing enterprises or activities. Project management has noted better repayment rates with existing businesses, and feels that by supporting the development of these businesses, it is still meeting its objective of creating a new class of entrepreneurs.

OPERATIONS

Services

The project provides a complete package of services to entrepreneurs with potential projects. Great importance is placed on preloan selection and analysis, and significant staff resources are devoted to this stage of project development.

The process begins with the reception of anyone with a project idea. When a sufficient number of project ideas has been received, a selection committee meeting is held to choose promising projects and assign them to project officers who present the project ideas to the promoters. The ratio of files opened to visits received by potential entrepreneurs is quite low: from March 1991 to April 1992, the project received almost 15,000 visits yet opened just 3,000 files. At this stage, potential entrepreneurs also receive formal group training in entrepreneurship.

Once projects have been selected and files opened, the project officer works with the promoters to carry out a loan analysis. The project estimates that each project officer can handle three new files per month. Included in the project development process is individually tailored training for management weaknesses detected. Once a project has been determined bankable, a credit committee is convened. The credit committee, which comprises local bankers, a technical advisor, and representatives of the EDF and the Ministry of Public Works, does not make final loan decisions, but advises the project director, who has the authority to approve loans. Again, the ratio of projects financed to files opened is low: from March 1991 to April 1992, only 630 of the 3,272 files opened were financed.

Equal importance is placed on loan follow-up. All promoters receive formal management training. In addition, individual follow-up is provided by follow-up agents in general management areas. The project estimates that each promoter requires one follow-up visit per month for the life of the loan. Each follow-up agent can provide follow-up services to 30 projects at a time. In addition to the management follow-up provided by project staff, technical follow-up is provided by a UNDP-financed team of experts.

Although project management believes that the labor-intensive selection and follow-up services are key to ensuring good projects and good repayment rates, it also now takes tangible guarantees to secure loans. The project requires 100 percent loan security through personal guarantors and liens on equipment, although the Malian government resists the idea of requiring promoters to provide these guarantees. These tangible guarantees supplement the peer group guarantees the project initially relied upon.

The project requires each promoter to establish an economic interest group (Groupement d'Interet Economique — GIE) to provide a loan guarantee. These GIEs are legally established as entities separate from the enterprise being financed, with the express purpose of providing a guarantee against nonpayment. The GIE must comprise a minimum of four people, including the promoter. Each member makes an equal monthly contribution to a blocked bank account, which only the director of the project branch office has access to and can draw upon in the event of nonpayment. GIE members begin contributing to the guarantee account before the promoter receives his loan. An amount equal to at least three monthly loan payments should be accumulated in the account before the project disburses the loan. Once the project is financed, the members are supposed to continue making monthly contributions, and the business pays a kind of indemnity to the GIE equal to three individual contributions per month. When one-third of the debt has been paid, the other GIE members can have access to a loan from the project. The GIE earns 7.5 percent APR interest on the blocked guarantee account.

Although the project still requires that a GIE be established prior to receiving a loan, in practice the system has not worked as well as hoped. The project has found that other GIE members are really "ghost members": they agree to the use of their name as guarantors, but do not really make contributions to the joint fund. Once the project is financed, the subsequent voluntary contributions are not made. Project management feels that the system has helped inasmuch as it has created initial forced savings that act as a minimum cash collateral for the loan. The social aspect or peer group guarantee mechanism has not developed as foreseen, and ongoing savings that would serve to increase cash collateral have not materialized. The project has been able to draw on accumulated GIE contributions to offset bad debt, in the face of some opposition from the GOM and the donor. As of April 30, 1992, 36.6 million FCFA had been withdrawn from GIE accounts to cover late payments. Most of the 83.2 million FCFA remaining in guarantee accounts represented contributions from GIEs associated with relatively healthy enterprises.

In addition to tangible guarantees and the establishment of a GIE, the project requires a cash contribution by the promoter, and closely controls the use of loan proceeds. The promoter is required to deposit his capital, which averages 17 percent of total project costs, into an account established by the project in a local bank. The project does its best to determine the origins of this capital contribution, to ensure that it is not borrowed from other sources. Loan proceeds are also deposited into this account, which can only be accessed through the double signature of the promoter and the project branch manager.

The promoter must bring all supporting documentation for loan disbursement to the branch office, and the project generally pays suppliers directly.

Cost of Credit

The project charges 8 percent APR interest for agricultural loans and 10 percent APR for all other loans, compared to the current commercial interest rate of 15 percent APR. Interest is charged on a decreasing balance, with equal monthly repayments. In addition to interest, the project charges dossier fees calculated on a sliding scale in relation to the loan amount, and follow-up fees calculated as a percentage of the projected level of sales. Promoters are also required to pay guarantee registration fees.

The dossier, follow-up, and registration fees, the interest during the grace period, and the amount the business will have to pay as an indemnity to the GIE during the grace period are all included in the total project costs and financed through the loan. The project deducts the dossier and follow-up fees, which generally total about 6 percent of the loan amount, from the loan disbursement. The project is therefore financing the noninterest fees, which it recuperates immediately, allowing the promoter to repay interest and fees over the period of the loan. The effective interest rate (including fees) paid by a promoter is on the order of 6 percent APR for a 4 million FCFA loan with a three-year repayment period, including a three-month grace period.

Structure

The project currently operates six branches around the country. Four of these — in Bamako, Ségou, Sikasso, and Mopti — are fully operational. The branches in Kayes and Tombouctou only made their first loans in mid-1991 and have not yet reached an optimum level of operations. The project employs 100 local staff, with about 20 staff in each of the older branches and 8 in the two newer branches.

Direct work with clients is carried out by both project officers and follow-up agents. The project officers work with clients to develop feasibility studies and assess the project. They remain responsible for the project through loan repayment, although the follow-up agents do the actual follow-up work with clients after loan disbursement. Sometimes these two separate functions are carried out by the same officer, but the project has faced difficulty in recruiting staff capable of doing both jobs. Project management would like all officers to be able to do both.

In addition to follow-up agents, each branch has one agent responsible for loan recovery. Because of poor repayment rates, the project has also recently established its own legal service to recover bad loans.

Through 1990, all branch managers were expatriates. Two of these expatriate staff were responsible for overall project management in addition to assuming management of branch office activities. By the end of 1991, all branches except for Bamako had been turned over to Malian managers. In 1992, the two-person management system was replaced by one project director, who has also retained management responsibility for the Bamako branch activities.

Each branch office has a separate identity, and the project is known by various local language names in different parts of the country. Each branch is managed as a separate enterprise, with overall project management assumed by the Bamako-based director. Branch managers operate with a great deal of autonomy and are expected to manage branch operations as separate cost or profit centers. All branches share a central audit and control system and are linked by computer.

RESULTS

Loan Disbursements and Portfolio

Table 4 shows the amount and number of loans disbursed over the life of the project, by branch. Figures have been compiled from available documents for the periods May 1988 through November 1989, December 1989 through March 1991, and April 1991 through April 1992.

The project has disbursed 630 loans worth 3.3 billion FCFA in its four years of operations through April 1992. The outstanding portfolio on April 30, 1992, was 2.4 billion FCFA. Each branch seems to have maintained a fairly steady level of disbursements, but with the continual addition of new branches, overall loan disbursements have increased from an average of 11 per month in November 1989 to 16 per month for April 30, 1992. And overall average loan amount has almost doubled since November 1989, from 3.43 million FCFA to 6.58 million FCFA. As a result of the new branches and increased loan amount, loan disbursements have increased almost threefold, from an average of 38.5 million FCFA per month for the period May 1988 through November 1989 to an average of 105 million FCFA per month for the period April 1991 through April 1992.

Loan activity in Bamako, both in terms of numbers and amounts of loans disbursed, represents 40 percent of total project lending. The average loan size in Bamako has increased significantly, from 3.4 million FCFA in 1989 to 8.8 million FCFA in 1992. Whereas average loan size has increased in a similar manner at the Ségou branch, from 3.9 million FCFA to 8.1 million FCFA, average loans made by other branches are significantly lower, 5 million FCFA.

Portfolio Quality

Table 4 also shows the trends in repayment rates by branch over time. The repayment rate shown is the ratio used by the project, which is the amount of payments due for the period divided by amount of the payments actually received. Repayment performance has deteriorated significantly over time, to a current overall level of 60 percent. Of the 40 percent in arrears, the project classifies 10 percent as irrecoverable loans, or losses.

The repayment rate in Bamako, which represents 40 percent of all loan activity, is the lowest of all branches and has fallen from 94 percent in November 1989 to 54 percent in April 1992. The branches at Ségou and Mopti show a similar deterioration in repayment rates. Sikasso has maintained a repayment rate of 70 percent since project inception. The branches at Kayes and Tomboctou showed repayment rates of 91 percent and 92 percent respectively through April 1992. However, given the trend of decreasing repayment rates noted at other branches, it is too early to tell if Kayes and Tomboctou will be able to maintain these rates.

TABLE 4

EDF/MALI

	BAMAKO	SEGOU	SIKASSO	MOPTI	KAYES	TOMB.	TOTAL
May 1988 - November 1989							
Amount Dispersed*	323	247	162	0	0	0	732
Number of Loans	95	63	55	0	0	0	213
Outstanding Portfolio*							N.A.
Reimbursement Rate (1)	94%	81%	71%	--	--	--	--
December 1989 - March 1991							
Amount Disbursed*	510	406	173	134	0	0	1,223
Number of Loans	91	54	35	30	0	0	210
Outstanding Portfolio*							1,406
Reimbursement Rate	58%	75%	70%	88%	--	--	66%
April 1991 - April 1992							
Amount Disbursed*	493	276	200	164	114	116	1,363
Number of Loans	56	34	38	31	24	24	207
Outstanding Portfolio*							2,423
Reimbursement Rate	54%	58%	69%	73%	91%	92%	60%
Cumulative in April 1992							
Amount Disbursed*	1,326	929	535	298	114	116	3,318
Number of Loans*	242	151	128	61	24	24	630

* Millions of FCFA

(1) The repayment rate shown was calculated by the project as the amount actually received for the period divided by the amount due for the period.

Project management contributes the poor repayment rates to several factors. First is the type of clientele the project has targeted until recently, particularly the young graduates financed in Bamako. Second, project management feels that the lending volume has grown at too fast a pace, resulting in a deterioration of follow-up services. As the number of files increases, the quality of loans decreases.

The project has recently begun an intensive loan recovery campaign in an attempt to clean up the portfolio. In the month since the campaign started, results have already been seen in Sikasso and Mopti, where repayment rates have risen from 69 percent to 74 percent and 73 percent to 78 percent, respectively. No results had yet been seen in Bamako and Ségou, where repayment rates are the lowest. The project believes that a current repayment rate of 70 percent is a realistic goal, with possible 90-95 percent recovery rates achieved through the liquidation of guarantees.

Although the project counts 630 new enterprises created, this is possibly a somewhat illusory figure. The project itself estimates that only 30 percent of these new enterprises are healthy, with a good chance of survival. Another 40 percent are surviving now because of the intensive follow-up provided by project staff, but would probably not make it on their own. The remaining 30 percent are facing difficulties, and the project fully expects that at least 10 percent of these will not survive at all.

Portfolio Characteristics

Loan amounts:	6.58 million FCFA average	
Loan term:	Maximum 60 months, average 42 months	
Grace periods:	Average 3 months	
Use of loans:	Working capital and equipment	
Sector of activity:	Agro-pastoral	26.0%
	Industry	10.5%
	Artisanat	3.5%
	Transport	5.0%
	Tourism	1.0%
	Distribution	25.0%
	Other service	28.0%

TYPES OF PROMOTERS		
Young graduates	304	48%
Civil service retirees	18	3%
Voluntary civil service retirees	35	6%
Others	273	43%
TOTAL	630	100%
Men	529	84%
Women	101	16%
TOTAL	630	100%

STRENGTHS AND WEAKNESSES

Strengths

Project management states frankly that with the extremely poor repayment rates registered to date, the project cannot be considered a success. The project sees its strengths, however, as its improved selection process and the quality of follow-up services, as well as a certain degree of autonomy in relation to the government and the donor.

The project's attempt to improve repayment rates by monitoring the quality of projects and promoters selected is in itself a strength. Management has realized that the clients initially targeted are not good credit risks and has ceased giving them preference. The project now relies on an assessment of the promoter's experience in the chosen branch of activity, as well as his character and entrepreneurial spirit or dynamism.

Management is clearly moving away from the "social" or softer "development" approach favored by the GOM and the donor to a more straightforward banking approach. This approach is reflected not only in more objective client selection but in the requirement of tangible guarantees to cover potential risk. This new attitude will be very important in ensuring the long-term success of the financial institution now being created.

Weaknesses

Clearly, one of the project's major weaknesses to date has been its targeted credit approach concentrating on start-up enterprises, which has resulted in a potentially low enterprise survival rate, reflected in the low repayment rates. Although this approach is changing, the project still maintains very low repayment rate goals. The goal of management to achieve only 70 percent repayment represents a serious threat to the viability of the proposed financial institution.

In addition to pressure by the Government of Mali and the donor to target particular clients, the project has felt a great deal of pressure to disburse loans quickly and to expand its geographic coverage by establishing new branches. Management feels that expansion has been much too rapid for effective credit management and follow-up. For example, management estimates that a credit officer can effectively follow up 30 loans per month, yet in branches such as the one in Bamako each credit officer is currently responsible for 50 clients.

The very high labor-intensiveness of the work done with clients, both in project preparation and loan follow-up, is one of the project's weaknesses. Although the project considers the quality of follow-up services to be one of its strengths, the relatively low number of clients each credit officer is capable of effectively servicing results in high operating costs. The project's current approach to project development and loan follow-up is not cost-effective. The other side of this coin is a low level of revenue. The project is currently charging highly-subsidized interest rates, which, combined with the high operating costs, do not permit it to break even.

Finally, although the project is in the process of transforming itself into an established financial institution, it has been managed up to now as a project. When current management took over, there was no accounting system in place at all. The financial management and accounting system put into place in 1989 was tailored to project management needs rather than financial institution needs, even though the project was effectively acting as a financial institution. The project is aware of this weakness and is currently putting into place an appropriate accounting and financial management system. However, it seems that even in the financial projections being developed for the future, costs such as depreciation, reserves for losses, the cost of capital, and the cost of expatriate technical assistance are not being taken into account.

FINANCIAL VIABILITY

As noted above, the project's high cost of services and subsidized interest rates are negatively affecting its financial viability. In the 1991 calendar year, after 3.5 years of credit operations, the project covered only 48 percent of its local operating costs through internally generated revenue. The shortfall was covered by EDF operating grants.

For the current and last phase of the project (January 1991 through December 1994), local operating costs are budgeted at 422 million FCFA per year, with 300 million FCFA per year operating subsidies provided by the EDF. For the same period, an additional 2.45 billion FCFA will be available for loan disbursements, permitting the project to disburse about 800 million FCFA per year. The cumulative loan disbursements by December 1994 will be almost 5 billion FCFA, and the outstanding portfolio will be 3.5 billion FCFA.

Projections based on the 422 million per year local operating budget show that the project would cover 65 percent of costs by the end of 1992 and 80 percent of costs by the end of 1994, with a return on the portfolio of 10 percent. In other words, operating subsidies provided by the EDF will not be sufficient to cover budgeted local operating costs. The cost of expatriate assistance is not included in these calculations.

Conscious of the shortfall, project management has already begun to reduce the actual level of operating costs through measures such as reducing personnel. Of the current 100 employees at the 6 existing branches, only 80 will likely be in place by the end of 1993. Local operating costs are now at 384 million FCFA per year (90 percent of budgeted costs), and are expected to drop to 28 million FCFA per month (336 million FCFA per year) by the end of 1992. At that level, project revenue could cover 100 percent of local operating costs at the end of 1994, with a portfolio of 3.5 billion FCFA. Currently, only the Bamako branch, with an outstanding portfolio of 961 million FCFA and arrears of 46 percent, is covering its expenses. Project management would also like to raise interest to market rates to improve operational sustainability, but faces some opposition from the Government of Mali and the donor.

Although management is preparing for the transformation from project to financial institution by cutting costs and raising income, all costs are not being taken into account in the financial projections. The project is only attempting to cover current local operating costs and is not taking into account depreciation, a loan loss reserve, the future cost of capital, and the cost of ongoing expatriate assistance. An adequate loan loss reserve alone would increase operating costs considerably, given the project's expectations that 10 percent of all loans disbursed will become losses. Prospects for long-term financial sustainability are poor, given current approaches to project development and financing.

INSTITUTIONALIZATION

To ensure that project activities continue beyond December 1994, when the EDF project cycle and financing will terminate, plans are being developed to turn the project into a financial institution. The tentative name for this institution will be Création-Initiative, which will be established under the laws of the BCEAO as a *société anonyme à economie mixte*, with an initial capital of 100 million FCFA. The project has already prepared a prospectus for the new institution, which is expected to be finalized and presented to the BCEAO by September 1992. The project hopes to receive approval from the BCEAO by early 1993.

The share capital of the new institution will be divided among the state, the clients (through GIE groups), local banks, the private sector, and project personnel. The EDF (EC) will retain a symbolic 1 percent share, as it is legally unable to hold share capital. It will, however, retain a seat on the board. The current working assumptions about the distribution of share capital are shown below.

DIVISION OF SHARE CAPITAL	
SHAREHOLDER	PERCENTAGE
State	15
Parastatals	19
EC	1
GIEs	20
Banks	20
Personnel	5
Private Sector	20

The above figures are only working hypotheses, and the project expects that overall state participation will be no more than 20 percent (compared with the 34 percent currently projected) in the final proposal. The BCEAO agrees with the idea of limiting state participation to 20 percent Share capital is being distributed so that no one group or category of shareholders has majority.

The new financial institution will inherit the project's existing portfolio. Although the project is making its best efforts to clean up the portfolio by that time, its overall objective is only to reach a 70 percent repayment rate. Because the project will not be self-supporting at the time it becomes a financial institution, it is hoped that the donor would be willing to give a grant that would be used to absorb loan losses registered at that point. The 70 percent repayment rate aimed at by the project is not adequate to ensure financial viability of the financial institution and does not meet BCEAO requirements. It is not clear that the project has adequately considered the ramifications of its current portfolio quality, nor put sufficient thought into ways of improving portfolio quality to ensure long-term viability of the new financial institution.

As mentioned above, the amount of staff time and resources devoted to developing feasibility studies and carrying out loan follow-up makes for costly operations. To reduce costs, the project would like to subcontract the preparation of feasibility studies and a portion of follow-up services with local consulting firms. The project expects that the promoters will continue to pay the financial institution directly for these services, which can be financed through the loan. The financial institution would pay a lower rate to the consulting firms, thus earning a spread on these activities. It is not at all clear that this is a workable proposition.

It is anticipated that local banks will be active partners in the development of the new financial institution. At least 20 percent of the shares should be owned by local banks, and the project hopes to be able to access lines of credit through the banks to increase it lending capacity. Currently, only the Banque de Développement du Mali and the Banque Nationale de Développement Agricole, both government banks, have expressed interest in participating in the share capital. Because the project sees itself as a beginners' bank, preparing clients to graduate into the commercial banking sector, it is hoping to persuade other banks to participate in the new institution through both capital and lines of credit. Given the private banks' current lack of interest in owning shares in the new institution, and the actual and projected portfolio quality, it is not clear that the project's expectations with regard to bank involvement will be met.

At least 40 percent of the shares in the new institution will be held by private sector operators. The idea of having clients and personnel be shareholders in the new entity is sound and will lead to mutual accountability for results.

Of the 20 percent shares projected for the private sector, it is possible that 15 percent will be owned by a company created through project activities in Ségou, "Le Ségovien." Le Ségovien is a GIE that was created by a member of the original credit committee established in Ségou. The GIE was established with local private capital to support the enterprises being created through the project and to mobilize local financial resources. Le Ségovien provided bridge financing to entrepreneurs waiting to receive loans from the project. The level of local participation in the GIE was not that expected, and financing activities remained minimal. Now, Le Ségovien is being transformed into a Société à Responsabilité Limitée, and intends to become a major shareholder in the new financial institution.

All branch managers, with the exception of the one in Bamako, are now Malian, so that all middle-level management of the new financial institution will be local. Legally, the President Directeur General (PDG) of the new institution must also be Malian. Although local management capacity is available, there is concern that a local PDG would be unable to resist social and political pressures to disburse inappropriate loans. Therefore, it is expected that expatriate technical assistance, if not outright expatriate management, will continue. It is unclear, however, how this assistance will be financed.

ENTERPRISE CREATION CENTER
CAMEROON

PROJECT DESCRIPTION

Background

CCEY is a five-year $5-million CIDA project. When it started in 1988, it was entitled the Small and Medium Enterprise (SME) Incubator Project and was to create an industrial zone of and for SMEs in the Yaoundé region. The project planned to focus on the construction of business facilities — to construct 10 enterprise shells of 200 square meters each and to construct 6 facilities of 2,000 square meters each. These facilities were to be serviced by a central facility, which would provide mainly business and technical advisory assistance. The project has now changed its name and greatly changed the orientation of the project.

The target group includes Cameroonian entrepreneurs who are judged capable of creating and sustaining viable SMEs in the Yaoundé area (thus far up to 350 kilometers from Yaoundé). The target enterprises are expected to generate an average of 10 new jobs, and ownership must be at least 50 percent Cameroonian. Aside from the objectives described above, the project also aims to facilitate access to credit for entrepreneurs who would not otherwise be eligible because of the small size of their activities, the financing they require their lack of collateral, their sex (for women), or the perceived riskiness of their activities (especially commercial agriculture, livestock, and agribusiness) — to stimulate commercial banks to initiate or expand lending to SMEs and to train entrepreneurs in essential business skills.

Underlying Concept

The concept underlying the project is that small, modern, formal enterprises are needed to create the basic fabric for a private sector. The project is designed to support entrepreneurs in all aspects of business start-up: developing viable business concepts; preparing business plans; starting new enterprises and generating employment (and to a lesser extent, expanding existing SMEs); and facilitating SME access to business financing from commercial banks.

This latter point is a critical one in the overall concept because it would lead to a greater integration of the project into the existing systems in the country, increasing the sustainability of the enterprises created. The project was to assist linkage into financial intermediaries by completing the financing provided by the entrepreneur in order to meet the banks' borrower self-financing requirements. CCEY's contribution also reduces the amount of collateral that the borrower is required to offer to the banks. CCEY's contribution to the financing package thereby reduces the exposure and risk of both the banks and the entrepreneurs. Although CCEY's financing is extended as a loan to the entrepreneur through the bank involved, essentially it is now functioning as a type of loan guarantee fund.

The April 1992 evaluation stresses that CCEY is still an incubator, but an incubator without walls. The usual package of business support services (for example, aid in dossier preparation) as well as the information and logistical and telecommunications support the project provides are defined as an "incubation" package (the SMEs receiving these services are being "incubated"). However as the evaluator eventually explained, CCEY is essentially a development bank that targets small- and medium-scale start-up enterprises.

OPERATIONS

The main project activities include the following:

- Operation of a business center, where advisory assistance is provided and entrepreneurs may obtain business information (business library), as well as telecommunications and photocopy services at less than the prevailing commercial prices;

- A line of credit to the commercial banks for on-lending to SMEs;

- The provision of training and assistance in the development of business concepts and plans; and

- The provision of training and advisory assistance on business and technical issues and in the implementation of the projects for which they obtain financing.

To initiate a request for support from CCEY, applicants must first complete a 25-page questionnaire. The advisors appear to be quite proud of the thoroughness of their appraisal and filtering process, which they have adapted from commercial banking practices.

The credit operations concentrate on providing medium-term financing, defined as funds with a maturity of 12-36 months. Funds are delivered from the commercial banks to the borrowers at rates slightly lower than most commercial rates. CCEY-funded credit is delivered at 18-20 percent, whereas the rates for most commercial loans vary between 21 and 22 percent.

Incorporated into the CCEY-backed credit is the cost of funds from CCEY to the banks (11 percent), bank administrative fees (4.25 percent), central bank fees (0.25 percent), and various taxes (2.7 percent). CCEY charges its clients 25,000 FCFA for assistance in opening the project dossier, although no fees are charged for aid in preparing the actual business plan. An additional 10,000 FCFA per month is also charged for staff members' weekly site visits to the participating enterprises and for other project monitoring.

In the first two years of the project, the interest and participation of the commercial banks was much more active than now. Recently there has been very little funding provided by the banks to project-sponsored SMEs, and CCEY has increasingly provided almost all the funding made available to the firms. However, CCEY still delivers the loans through the banks, which continue to take the administrative fee but perform minimal services (almost all services being performed by CCEY), bear no risk, and contribute little, if any, capital.

Amount and Number of Loans

The objective was to create 44 SMEs that would generate 440 new jobs. Although support services and advice are provided to other entrepreneurs, these two quantitative targets represent the main objective of the project. If the full $5 million in funding is attributed to these firms or to this employment generation, this represents an expected target of $113,636 expended per firm or $11,363 per new job created. (Obviously if one assumes that a smaller proportion of the funding should be attributed to these targets and some funding should be attributed to the project's other objectives, these costs per firm and per job would drop.)

Although the project's funding was delivered in several tranches and there was great uncertainty about the amount and timing of each tranche, CCEY has already surpassed its employment generation targets. After three years of operations (and disbursement of 75 percent of its funding), the project has supported the start-up or expansion of 44 firms; it anticipates that 8 more will be created by the project termination date. The 44 enterprises have created 485 new jobs, and the additional start-ups are expected to create another 80 jobs, for an expected total of 565.

CCEY has provided a part or all of the loan funding to 40 of the 44 firms that received financing; the volume of CCEY financing provided to these firms is 162 million FCFA, or an average of 4.05 million FCFA per firm ($10,125). These firms have generated 414 jobs at a CCEY loan cost of $1560 per job.

The project has not been as successful as planned in stimulating commercial bank financing for the targeted SMEs. Of the 44 firms that have received loans, only 15 have received any commercial financing. Three of these firms received only commercial funding. They are three of the largest firms, and two are clearly very prosperous firms that could not only provide substantial amounts of self-financing (100-260 million FCFA) but presumably also offer significant securities.

The relatively small proportion of firms that received commercial bank funding are not only larger than the firms CCEY lends to, but the loan amounts recipients got from the banks are also much greater than the loans extended by CCEY. The banks lent 358 million FCFA to the 15 firms. Whereas the average loan size was 23.9 million FCFA, only 2 of these loans can be considered small (3 million FCFA or less), and 6 of the firms received loans of 20 million FCFA or more (these large loans accounted for 81 percent of the total financing provided by the banks to CCEY-incubated firms).

Women Clients Reached

Forty-four firms have received financing thus far, creating 485 jobs. Seven of these firms (16 percent) are owned by women, and women share ownership of another five firms (11 percent). Since the start of the project, 353 requests for support have been received by CCEY; of these, 72 percent have been rejected, and another 11 percent await decisions on their acceptability, or their projects are in the process of being further elaborated with CCEY support.

Characteristics of Portfolio

The characteristics of the firms that received financing from CCEY, the banks, or both are these:

- Average turnover (chiffres d'affaires), 39 million FCFA;

- Average workforce before financing, 11, with a range of 4-33[1];
- Average new activity financed, 38 million FCFA, with a range from 2 to 400 million FCFA; and
- Average self-financing of 25 million FCFA, with a range of 4-260 million FCFA.

CCEY is providing most of the financing for the firms with the smallest projects, and the commercial banks are contributing to or providing all of the financing for the largest firms and the most costly projects.

Six of the enterprises financed are engaged in agricultural activities, mostly very large-scale poultry operations. These are the largest firms, with average annual turnover of 104 million FCFA and average project costs of 116 million FCFA. Nineteen firms, or 43 percent, are engaged in the production of other goods (secondary sector), including some agroindustrial products. The average turnover for these enterprises is 36 million FCFA, and the average project size is 33 million FCFA. Firms in the tertiary sector, largely commercial and service enterprises, received 19 loans, or 43 percent. These firms are somewhat smaller than the productive enterprises; average turnover for the tertiary sector firms is 20 million FCFA, with average project size of 18 million FCFA.

The simplest and most commonly used indicator of firm size, size of workforce, suggests a wide variation in the scale of firms assisted by the project. Whereas 21 (48 percent) of the firms employed fewer than 10 employees before receiving financing, 7 of the larger firms employed 20 or more workers.

Repayment Rate

No details were provided on the timeliness of repayments. The overall recovery rate is currently 70 percent, with 25 percent of the firms experiencing major difficulties and in severe delinquency. Two firms (5 percent) have failed (halted operations) and thus are in default. One had received 100 million FCFA in commercial funding, but since CCEY had not yet initiated its line of credit and thus bore none of the risk involved in this loan, this business failure represents no financial loss to the project. Although the April evaluation provided a chapter with complete details on the performance of the credit portfolios of CCEY and the commercial banks financing project-assisted borrowers, this chapter had not yet been received by the project.

The Canadian project director feels that the 70 percent recovery rate is an acceptable rate, given not only the difficulties of doing business in Cameroon, but also comparable small business defaults and failures in the United States.

Links with Private Sector

A major project goal was to induce private commercial banks to initiate or expand lending to SMEs — specifically to reduce collateral requirements, lend to borrowers who were formerly perceived as "risky" (apparently women, farmers, and agricultural processing firms), and to expand small-scale

[1] This seems to contradict stated project focus on start-up enterprises; none of the firms is shown as having zero employees before receiving financing.

lending. The CCEY director reported that commercial banks in Cameroon are generally not interested in extending loans of less than 25 million FCFA.

Six different commercial banks apparently have provided financing to CCEY-backed entrepreneurs. The six include not only the Cameroonian Agricultural Bank, but also several banks with substantial foreign ownership (such as Credit Lyonnais and Meridien Bank). However few, if any, continue to provide funding to CCEY's target group according to the project target specifications. Clearly the 30 percent defaults and near-defaults and the failure of the massive poultry project (100 million FCFA bank loan not likely covered by any securities) eroded confidence in CCEY commercial bank participants. However, the project director does feel that CCEY's backing of entrepreneurs does instill confidence in all parties with whom the entrepreneurs conduct business.

Other Results

The project has provided at least a small amount of advice to all of the rejected applicants, and maintains a business service center and information library that may be utilized (within limits) by the broader business community. However, the actual services provided are limited in scale. Staff to perform photocopying and typing are very limited, and the telephone and other telecommunications services are also limited and provided in an environment that is less than ideal - no privacy for phone calls, noisy office, and just one phone line for visitors.

STRENGTHS AND WEAKNESSES

Strengths

The project has financed 44 enterprises including expansions and new starts. The project has therefore met its goals of enterprise creation and employment generation (whether the jobs created will last remains to be seen).

The project provides very intensive assistance to a small group of start-up operations. It has made a valuable contribution in this difficult and risky area of business development.

The project has instituted a very rigorous selection process for the few firms that it will work with, which has led to the relatively small failure rate (5 percent), even though final loan recovery rate is only 70 percent.

To the extent that the enterprises sustain their operations over time, a large number of jobs has been created; however, the new firms have not yet been in operation long enough to ascertain whether they have, in fact, created permanent employment opportunities.

The intensity of the preproject assistance, the extended duration of the assistance, and the extremely close monitoring of the new project activities are key to project success. Unlike most projects, CCEY is allowed to concentrate on a few good men and women, and it has been able to identify them.

Weaknesses

The project has many liabilities. Though it has financed 44 enterprises, the project has not addressed the larger question of lasting support systems and will likely have limited lasting impact in Cameroon.

The preproject development activities get intensive assistance as well as extremely close monitoring and frequent site visits, making them very expensive to provide. It is not clear that such intensity is necessary, effective, or even advisable since it can never be replicated by nonproject institutions and since it makes assistance so costly. In addition, by providing heavily subsidized advisory assistance in isolation from the local business consulting community, the project has also undercut the market for this important private business sector.

The actual project focus on larger start-up enterprises appears ill-conceived, since these undertakings are extremely risky. Risk drives from the high level of management skill required to run such an operation and from making a large investment in such a tumultuous environment.

The project has not succeeded in reaching its objective of stimulating commercial bank interest in lending to SMEs. Only a third of the loans received any commercial bank funding, and six of these loans were in the range normally acceptable to banks (greater than 25 million FCFA). Since the project has taken over the majority of the lending operations, no systems for delivering credit will be left behind after the project ends, a factor which will weaken the firms created by the project.

INSTITUTIONALIZATION

The project will continue in it present role as a nonprofit financial institution. Beyond that, project managers are interested in establishing a venture capital fund. The project has considered using interest and loan repayments to finance this new venture capital fund, but based on the success rate to date, this appears inadvisable. Although actual revenue figures are unavailable, only about 10 percent of local operating costs are covered, which does not even compensate for inflation.

The cost of operations is the greatest load. The small business service center reportedly covers its direct operating costs, although it is unclear whether this includes depreciation on equipment or overhead support (office rent, equipment, and furniture or secretarial support). But the cost of carrying out the business consulting services does not reflect the real cost of providing them.

Interest provides minimal revenue, given the low interest rate charged to the banks (11 percent), and also the medium-term focus of the credit, with high delinquency and default rates. The 30 percent unrecovered rate more than compensates for the revenue provided by the interest, and the result is a steady decapitalization of the fund. In addition, only part of the loan fund is currently earning revenue. With minimal cost recovery, sustainability will be impossible.

Finally, the management of the project has been entirely Canadian. The four Cameroonian professional staff who work closely with the entrepreneurs in providing aid in preproject activities and subsequent project monitoring and advice are competent, but they do not have the expertise to run this operation after completion of the project.

WOMEN'S WORLD BANKING GHANA

PROJECT DESCRIPTION

Background

WWB/Ghana is a private nonprofit financial institution and an affiliate of Women's World Banking in New York, which provides limited funding and technical support. WWB/Ghana provides credit, a savings facility, business technical assistance, and business and literacy training to women with small-scale businesses. Until recently WWB/Ghana also included a credit guarantee scheme, but this has now been discontinued. Initially WWB/Ghana received a small grant from Pew Memorial Trust, a U.S. foundation, to cover start-up administrative expenses. Now the program receives funds from the World Bank for its training activities, although this funding will end in the near future; WWB/Ghana hopes to obtain USAID funding to expand credit activities and fund continued training activities.

WWB/Ghana has received limited support to date from WWB, Pew, and the World Bank. It has 10 staff in Accra, 2 in Kumasi, and 1 in Cape Coast. Most, if not all, of the staff are salaried, rather than part-time volunteers, but the ability of the project to pay competitive salaries is jeopardized by limited funding and revenues. The project is housed in a large office above a commercial warehouse — simple but functional. Assets appear quite limited: a 4-wheel-drive vehicle and perhaps a computer, although none was visible. It is unclear which of these assets may have been donated, rather than purchased with project funds. It is a shoestring operation, although professional in appearance.

Incorporated as a company in 1983, WWB/Ghana had little output in the first few years of operations. Training activities were initiated in 1988, and credit activities were started in 1991. The institution plans to remain permanent, hoping to obtain additional tranches of funding from various sources.

Underlying Concept

WWB/Ghana focuses on providing financial services to women who lack access to institutional credit, particularly because of their inability to provide required collateral and their need for small loans, which are uneconomic for commercial banks to handle. WWB/Ghana seeks to increase women's incomes, generate employment among women (especially school leavers), and integrate women into the national economy. The program now assists men as well, as a condition for receiving World Bank funding.

OPERATIONS

Since its inception in 1983, the program has implemented a series of different services, including a loan guarantee scheme (now discontinued); a development fund; a savings facility for individuals and "Susu" groups; and project support, training, and network building.[1]

Loan Guarantee Scheme

This was a tripartite risk-sharing arrangement whereby WWB/Ghana, WWB/NY, and local commercial banks assumed risk in a ratio of 2:1:1. Apparently only Barclays Bank participated in the program, and about 25 loans were structured under this program over several years. The system was too complex, and since the banks showed little interest, it was discontinued.

Development Fund and Development Loans

The program has offered credit funding for both individuals and groups for joint projects (activities implemented by the group as a whole). Credit activities were initiated in 1991, and very few loans have been extended (exact number could not be provided). Interest rate could not be provided. The loan fund is very small; thus far WWB/NY has granted WWB/Ghana a small amount of funding to be on-lent. Program administrators hope that USAID will provide additional loan funds, but discussions on this possibility have been under way for one year, and USAID has made no decisions or commitments.

Eligibility requirements for borrowing include the establishment of a savings account with the project and the maintenance of this account with no withdrawals for six months. Maximum loan size will be 500,000 cedi (about $1,000). Site visits are made to view the business operations of all applicants for loans.

Savings Facility for Individuals and Susu Groups

The WWB/Ghana savings program, which was initiated in 1991, is known as MASU — Mutual Assistance Susu Limited. MASU has been licensed by the Bank of Ghana (apparently the first susu-type system to apply for and receive a license and a leader in the legitimization and regularization of susu activities). During the first year of operations, 300 savers joined the system.

For WWB/Ghana, the fees for savings include a 500 cedi registration fee and the following "commission" charges: for savings of from 200-1,000 cedi per day, one day's savings per month (3.3 percent); for savings of more than 1,000 per day, a monthly charge of 1,000. No interest is paid during the first six months. If at the end of six months the saver has made no withdrawals, he begins receiving interest of 6-7 percent per year. The minimum savings accepted is 200 cedi per day, but the actual range is 200-10,000 per day.

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[1] Susu groups are traditional savings groups in which a saver contributes a certain amount each day for safekeeping and at the end of the month is reimbursed the total, minus one day's contribution (3.3 percent per month). Although the susu system is widespread, there have been serious and frequent abuses, with the "holder" absconding with the funds. Thus, to have a trustworthy place to deposit savings is considered a very significant and valued service.

A collections officer makes the rounds of 60 clients each day in the main market to collect savings, although most savers visit the office to make their deposits. (A small fee is paid for this service.) The project has its own safe, where the savings funds are deposited on a daily basis; once a week the total week's savings are deposited in the project bank account. Each client is issued a savings passbook in which all transactions are recorded. When applying for a loan under the development fund, an applicant's savings in this program may be offered to meet the self-financing requirement.

Project Support

WWB/Ghana provides various types of assistance to groups of women who wish to undertake a group project. Forms of assistance include credit issued on soft terms, technical assistance in planning and appraising new projects, and advice in implementing projects.

Thus far, four projects have been financed: a corn mill, for which the loan has been repaid; a palm-oil-pressing facility; a pottery kiln; and a fish-smoking operation. The successful corn mill borrowers will now be applying for a loan to establish a day care center.

Training

The main training activity is a two-week course on business and financial management. It is conducted in four-hour sessions each day for groups of about 20 participants. A fee of 12,000 cedis is charged, which is considered quite costly by most participants. Since 1988, when the courses were initiated, 13 of these courses have been conducted, and 225 business people have been trained. Most course participants are literate, and many participants are highly educated and sophisticated small business people.

The direct cost of the training courses is 500,000 cedi per two-week session, which covers the cost of the consultants and trainers used, materials for the participants, and snacks during the sessions. With maximum course size of 20, maximum revenues would be 240,000, or 48 percent of the direct costs of the sessions. Obviously this does not cover any of the fixed costs, such as the salary of the staff training director, office (training site) rental, and teaching materials (blackboards and the like). The training activities are presently subsidized by a small amount of World Bank funding. Since the present fees are considered costly by the participants, it is unlikely that these training activities could ever be self-sustaining.

Occasional informal training workshops on various issues are also held, covering such subjects as marketing, credit, and savings. Some of these sessions are conducted in local dialects. The duration varies from one or two hours to a full day.

Instructors for all of these training activities are hired from the Management Development Productivity Institute, a local training institute. The World Bank requires that the program hire experts from this institute to assist with the session planning and presentation.

Networking

WWB/Ghana supports the continuous networking of its training course graduates by sponsoring quarterly meetings and a regular newsletter, and reinforcing a sense of pride in being an alumna of

WWB/Ghana. At the quarterly meetings, speakers make presentations on various business topics. The newsletter includes not only networking materials, support, and encouragement, but also articles on technical and business subjects.

RESULTS

As noted above, Barclays has guaranteed a number of individual loans, as well as four group loans. The formal training program has reached 225 women.

The project is obviously still very small, and the credit operations are not only small in volume, but also very new. Thus, information on repayment rates and other data are not yet available, and the impact of the training operations could not be assessed in the time available. The staff appears enthusiastic and dedicated, but unless they obtain additional funding, the group's operations are likely to remain very small with very limited impact.

However, attempts to interest commercial banks in providing credit to MSEs through the loan guarantee program were reportedly extremely unsuccessful.

The institution does appear to be providing very valuable encouragement and support to women entrepreneurs, possibly valuable training to a reasonably wide group of business women, and an extremely valuable savings facility to a small group of entrepreneurs. The savings activities may expand considerably as more business people become aware of them, though the lack of cost and revenue data from these activities precludes making a judgment on the sustainability of just the savings activities or even the ability of WWB to expand these services.

STRENGTHS AND WEAKNESSES

Strengths

WWB/Ghana is entirely managed by Ghanaians, a factor that will make its institutionalization easier and lower its management costs.

Through licensing of the savings program with the Bank of Ghana and the linkage with Barclays in the former guarantee program, WWB/Ghana appears to have given women's microenterprise activities a new legitimacy.

By generating local resources through its savings component, the program will be a true financial intermediary, not dependent on donor funds.

Weaknesses

The subsidized training program presents a weak point for sustainability since it is unlikely that it will be kept after project funding ends.

INSTITUTIONALIZATION

WWB/Ghana has already crossed one of the important hurdles for sustainability: it is locally managed. The operation was started by Ghanaians and will remain entirely staffed by Ghanaians, with the exception of one Peace Corps Volunteer. Some expatriate short-term technical assistance and advice are provided by Women's World Banking of New York.

Although the program has received financial support from the outside to get off the ground, it has put in place a central bank-approved savings program that will provide the financial resources to make loans in the future and serve as a true financial intermediary.

Several of the current programs such as the training do not cover their cost and do not appear to be sustainable unless support continues from outside sources. This is particularly true for the lower-income target group, for whom the training fees are considered extremely high. If training for the more educated, prosperous SME business people were conducted separately, higher fees might be charged, and there might be a chance for sustainability of the training for this segment of the target group.

WWB/Ghana group hopes to obtain continued and expanded grant funding from sources such as the World Bank and USAID. It is unclear if the managers are aware of the need to generate income from services in order to improve the chances for institutional sustainability and expansion.

PRIVATE ENTERPRISE CREDIT AGENCY
SENEGAL

PROJECT DESCRIPTION

Background

ACEP was previously known as the Small Scale Enterprise (SSE) component of the USAID-financed Community and Enterprise Development Project (CEDP). The CEDP began its activities in the Kaolack region of Senegal in 1986, with lending to SSEs beginning in 1987. Volume increased steadily through 1988. By 1989 it was evident that the basic premises of the project were correct, but that profitability could only be reached if volume increased substantially through an expanded network of branches. It was also evident that management of the component would need to be significantly improved to ensure orderly growth of the portfolio.

In October 1989, a new Director was recruited to guide the SSE component through this new phase. Under new management, the SSE component — ACEP — was completely restructured, and emphasis was placed on financial results. Each branch was managed as a profit center, and the branch manager's annual bonus was based on the branch's net income. Client selection was tightened, and collateral selection and registration were improved. By April 1990, ACEP was ready to expand its network and manage a substantially larger portfolio.

In May 1990, ACEP moved its headquarters to Dakar and opened eight new branches in the Dakar and Thies regions. The impact of the expansion was fully felt in Fiscal Year (FY) 1991. The volume of loans for the year passed the billion FCFA mark ($3,950,000). ACEP was financing more than 100 enterprises each month and lending $330,000 per month. This increase in volume and the ability to maintain a low write-off rate (2 percent) made ACEP financially profitable.

ACEP's performance has established it as the most efficient provider of credit to SSEs in Senegal. In terms of volume and quality, ACEP has the most important portfolio of loans to SSEs in the country. This fact has made ACEP an important element in the Government of Senegal's strategy to promote SSEs. In November 1991, the Government of Senegal expressed to USAID its desire to increase its counterpart contribution to the project to help finance ACEP's expansion to the remaining regions of Senegal. A national network of branches should be in place by September 1992.

Underlying Concept

ACEP's objectives are as follows:

- Provide secured commercial loans to Senegalese SSEs. The loans may be used to finance the enterprises' working capital or investment needs.

- Provide these loans on conditions and terms that ensure the financial viability of such lending.

- By the end of 1993, transform the SSE component into a permanent financial institution serving the needs of SSEs in Senegal.

OPERATIONS

Credit Policy

ACEP limits its lending to Senegalese nationals doing business within the geographic areas serviced by ACEP. Enterprises in all economic sectors are eligible. Lending is limited to existing enterprises with a proven track record. However, ACEP may provide start-up capital for enterprises introducing a new technology or a new product.

Initial loans do not exceed $12,000; subsequent loans do not exceed $20,000. At present no minimum amount is set. ACEP provides short-term loans (maximum 16 months).

Interest rates are set at the maximum allowed by the BCEAO. At present the rate is 28 percent A.P.R.

An origination fee equivalent to 1 percent of the amount of the loan is levied and payable upon signature of the loan contract. In loans where accounts receivable are used as collateral, a 3 percent commission is charged to cover the additional risk that such loans carry.

All ACEP loans must be secured by collateral or guarantees or both. The loan value of collateral cannot exceed 75 percent of its appraised value. The collateral usually accepted by ACEP consists of the following:

- Real property;
- Equipment;
- Accounts receivable; and
- Personal assets.

ACEP accepts third-party guarantees as collateral. The third party may be an individual or an institution.

All ACEP clients are required to contract a life insurance policy for the amount of the loan. ACEP is named as the beneficiary. If the loan is guaranteed by a third party who is an individual, the guarantor is also required to contract a life insurance policy.

To expedite realization procedures and to lower costs, ACEP requires that its clients sign notes equal to the value of the loan and interest. Should an account become doubtful, the notes are presented for collection.

ACEP loans are usually repaid on an amortized basis. In the lending environment in which ACEP operates, it is prudent to seek a schedule of frequent payments. Most ACEP loans are amortized monthly. Accounts more than five days past due are charged a penalty interest of 2 percent per month on the amount in arrears plus a fee ($10) for administrative costs.

Structure

ACEP now maintains a network of 14 branch offices located in the regions of Kaolack, Fatick, Louga, Thies, and Dakar. The network will be expanded to the remaining regions of Senegal beginning in April 1992.

ACEP currently maintains a staff of 26 plus support personnel. The director is the only expatriate; the rest of the staff is Senegalese. Responsibility is primarily delegated at the branch and regional levels for the preparation of the loan dossiers and to the legal department for the evaluation and registry of collateral. Branch managers produce the loans, monitor the investment, and when necessary, prod clients to reimburse. Regional managers are responsible for the supervision of the branch offices within their respective regions and for the quality of their portfolios. Thus, the regional manager reviews the loan dossiers submitted by the branch managers, conducts supplementary investigations of proposed clients, visits their enterprises, and in general crosschecks the data presented by the branch manager. The legal department reviews the quality of the collateral offered, and once a loan is approved, ensures the proper registry of the collateral.

Decisions on loans are made by the loan committee, which meets in each region once a month. The voting members of the loan committee are the director, the head of the legal department, and the regional managers. Loans must be approved by unanimous vote.

Each regional office maintains a cashier's office where clients make their reimbursements. In a few cases, where branch offices are located far from the regional office, branch managers are also cashiers and are allowed to accept reimbursements from their clients.

All key accounting functions for all regions are performed by the accounting office at ACEP headquarters. All controls are performed by the audit unit from headquarters.

The Director of ACEP has exclusive authority to sign contracts, approve disbursements, and sign checks.

RESULTS

SUMMARY FOR FY 1991
(October 1, 1990-September 30, 1991)

Number of loans	1,373
Total amount	$3,950,000
Average loan size	2,800
Outstanding balance	$2,570,000
Rescheduled loans	0
Write-off rate	2%
Net revenue	$423,000
Cost of operation	$370,000
Change in amount lent FY 1990-FY 1991	+158%
Change in number of loans FY 1990-FY 1991	+350%

Project Achievements to Date

Number of loans	2,142
Number of enterprises financed	1,710
Total amount lent	$7,850,000

Portfolio Quality

Credit Allocation by Economic Sector

Sector	% of Total Value
Agriculture	6
Commerce (general retail)	27
Commerce (ag + fish products)	10
Manufacturing	17
Services	40

We separate the marketing of agriculture and fish products from general retail to monitor our contribution to the agricultural sector either in loans directed to agricultural production or through loans directed at helping the marketing of agricultural products. The high risks involved in the agricultural sector, fishing in particular, have led us to direct our financing to the marketing of fish products. Merchants in turn finance fish operator's needs. We devote a substantial portion of our portfolio to services (transport in particular) because the collateral is usually good and the jobs created are of better quality (good pay and full-time).

Credit Allocation by Loan Size

Loan Size ($)	% of Total FY 1991 Loans
< 2,000	32%
2,001 - 4,000	30%
4,001 - 8,000	23%
> 8,000	15%

Credit Allocation by Gender

In FY 1991, women represented 23 percent of ACEP clients and received 11 percent of the total funds lent. The size of loans obtained by women are on average 50 percent smaller than those obtained by men. Two reasons explain this finding:

- In general, enterprises owned by women are much smaller than those owned by men. Assets are on average 50 percent smaller for women.
- Women do not have sufficient collateral to guarantee larger loans.

To remedy this problem, ACEP is giving group loans to women and using the guarantee of the group as collateral.

Client Profile

Most ACEP clients are in the informal sector of the economy. For the majority, an ACEP loan represents the first access to formal credit. More than half of ACEP clients (65 percent) have no formal education. The enterprises financed by ACEP have assets averaging $19,000 and employ an average of 4.6 people. Most ACEP entrepreneurs have a solid track record in their business; on average they have 15 years of professional experience.

Financial Viability

ACEP's financial picture has improved steadily since 1989. In FY 1989 ACEP's gross interest income barely covered 40 percent of its operating costs. In FY 1990, despite the costs of the expansion to Dakar, gross interest income covered more than 50 percent of operating needs. In FY 1991, because of the substantial increase in volume and the low write-off rate, ACEP was able to generate sufficient income to post a profit of $52,000.

In all the calculations of ACEP's financial viability, cost of money is zero, and the expatriate director's salary is not included in operating costs.

INCOME STATEMENT FOR FY 1991
($)

INTEREST REVENUE	
Interest on loans (net of unearned)	470,296.00
Interest expense	0.00
Net Interest Revenue	470,296.00
Provisions for possible credit losses	80,769.00
Net Interest Income	389,527.00
Other Income (fees)	33,550.00

OPERATING EXPENSES

Salaries	193,615.00
Premises (rent + utilities)	55,515.00
Other costs (gas, office furniture)	97,025.00
Depreciation	24,082.00
TOTAL OPERATION	370,237.00
NET INCOME (Loss)	**52,840.00**

Volume of lending has grown steadily except in 1989, when management difficulties stalled the project. The major increase took place in FY 1991, when the expansion of the network to Dakar began to have its impact.

	FY 1987	FY 1988	FY 1989	FY 1990	FY 1991
Amount lent ($000)	534	911	919	1,500	3,950
Number of loans	116	197	151	305	1,373

INSTITUTIONALIZATION

By September 1992, ACEP will be a credit union whose members will be owners of small-scale enterprises in Senegal. Once ACEP becomes a credit union, it will offer savings and credit products to its members. The statutes for the credit union "Alliance du Crédit et de l'Epargne pour la Production (ACEP)" have been written and are awaiting review and approval by the Ministry of Finance.

INTEGRATED RURAL ENTERPRISE DEVELOPMENT PROJECT GUINEA

PROJECT DESCRIPTION

Background

PRIDE is a five-year $6 million cooperative grant agreement sponsored by USAID and implemented by the Council for International Development (CID). The goal of the program is "to promote sustained economic growth in the rural sector of Guinea through the development of viable small-scale enterprises." The project targets micro- and small-scale enterprises (MSEs) already working in rural towns.

The project has three major components: a credit and savings program, an entrepreneurship and business skills training program, and the business linkage center. The first two elements will be projectwide, the third is located in only one of the project sites. As of July 1992, the project was active in the first component but had not yet begun the second and third components.

The project currently provides credit to MSEs, though the project management firmly believes that credit alone is not sufficient for growth. The credit portion is based on CID's experiences in Kenya, as well as on two other very successful credit programs: the Grameen Bank in Bangladesh and PCAR in Guinea. The credit program offers fixed-schedule credit to members of solidarity groups who have followed a three-session training program and have been approved by a local neighborhood council of elders. The borrowers are required to participate in one session of training per month, at which new techniques and experiences will be introduced.

Business training encompasses entrepreneurship training and management skills training. This has no direct relation to the credit program because the target audience will be firms larger than those targeted by the microcredit. The purpose of the training will be to try to change the attitudes and approaches of the business people to develop entrepreneurial characteristics such as persistence, risk taking, and commitment to quality and efficiency.

The business linkage center is to be a separate unit located in Kamsar, home of the Compagnie de Bauxite de Guinée (CBG). The center will assist CBG's procurement services in finding local producers of the goods the company consumes and in producing goods of sufficient quality and quantity to make timely deliveries to the CBG.

Underlying Concept

As noted above, the driving concept of the project is solidarity-based lending, coupled with ongoing training to the borrowers.

OPERATIONS

Project start-up began in July 1991. Before offering the credit component, the project carried out a baseline survey in November and December of 1991, using 21 local staff recruited and trained from a pool of 450 applicants. The baseline data collected from 522 enterprises in 313 households provide the project with extremely valuable control group information for measurement of project impact.

The project hired 15 permanent staff in February 1992, following a six-week training program. It made the first loans in May, and had made 200 loans worth 24.4 million FG ($30,000) in the first two months. Repayment was 100 percent after the first four repayments.

Credit Methodology

The methodology for distributing and collecting credit combines elements of the Grameen Bank, PCAR, and PRIDE Kenya models. The steps are the following:

1. Five people must register for the credit program as a group. No individuals are accepted.

2. When it is their turn to receive credit, groups attend a three-session training program on the nature of credit (differences among principal, interest, and profit), the responsibilities of PRIDE to the borrowers, and the responsibilities of the borrowers to PRIDE. At the end of the training, the members of each group are quizzed on the content of the training, and those who have fully grasped the concepts are approved for the next phase of the process.

3. Groups of five are consolidated or re-formed, and each member submits a request for membership to the program (Form A1) that is cosigned by the other members of the group. The application is then presented to the council of wise men for approval. If the client passes the council's moral judgment, the client is accepted, and he must pay the 2,000 FG dossier fee. All members of the solidarity group of five must be accepted; replacements must be found for members who are not accepted. This requirement might entail a delay of one month in receiving the loan for the entire group.

Project staff are supposed to evaluate the needs of the borrowers to ensure that borrowers really can effectively use the amount requested. At present, staff are evaluating 100 percent of the borrowers, but this will have to change in the future. All loan requests are completely transparent, and individual loan amounts are discussed in the solidarity group before they are approved. If the loan agent believes that the amount requested is greater than the borrower can handle, the agent reduces the loan amount for the first loan.

4. Following disbursement of the loans, members must repay every two weeks. The group elects a president who is responsible for delivering the payment of all five members on the appointed day to the branch office. No partial payments are accepted. The project does not monitor the individual members, only the groups. If a member presents problems within a group, the group is responsible for replacing him.

5. Because the long-term purpose of the program is to strengthen the enterprises, the project maintains an ongoing training program that the clients are expected to follow. This training, one session per month of one to two hours per session, is designed to share information between the project and the borrowers, as well as to improve information flow among local entrepreneurs about their experiences.

Sharing information provides the clients with new notions about business and allows the agents to maintain direct contact with their clients.

6. Once the loans have been repayed over a 26-week period (13 payments), the borrowers become eligible for larger loans.

Cost of Credit and Project Operating Costs

The project has a series of charges for the clients:

- A 2,000 FG dossier fee each time a loan is taken;
- Two percent of the loan amount for a solidarity fund, in case one of the borrowers dies or is crippled and cannot repay;
- Three percent for a forced savings fund (borrowers receive 1 percent per month interest on their forced savings, which are returned to them when they leave the program, but not after they repay the loan); and
- Thirty-six percent interest on the original loan amount, calculated on a decreasing balance basis.

Therefore, the project delivers 95 percent of the loan amount to the borrower, keeping 5 percent in reserve, but charges interest on the entire amount. With the initial dossier fee, this leads to a high effective rate of interest to the borrowers, even for Guinea.[1] Given the small size of the loans and their short duration, the effective annual rate of interest varies substantially:

LOAN AMOUNT	RATE
50,000 FG	33.3 percent
100,000 FG	29.1 percent
150,000 FG	27.6 percent

The principal cause of the high fluctuation is the requirement that each borrower buy one additional share for 2,000 FG for each loan taken out. This requirement contrasts with that of the PCAR, which only requires the purchase of the new share on the first loan, and has effective interest rates of 23.6 percent for the first loan of 100,000 FG and 22.6 percent if it is a second loan. The Credit Mutuel, meanwhile, charges an effective interest rate of 19.1 percent.

[1] $i = \frac{(\text{amount paid back - amount returned to borrower}) / .5 \text{ years}}{(\text{amount actually received})}$

For a 100,000 FG loan, this equates to: $\frac{(112{,}000-3{,}180) / .5}{95{,}000}$

or 29.09%

Training and Subcontracting Components

Training and subcontracting components have not yet begun, and there are many questions still to be worked out on how they will function. The first entrepreneurship training program, including a training of trainers, will be held in early August. The project will hire trainers to manage this ongoing phase of the program, hopefully eliminating any burden on the credit agents for recruiting candidates for the programs. Although the program expects to eventually charge the full cost of the programs to the participants, the local market for the services will likely be unable to bear the full cost of the training, which will necessitate marketing the program to other agencies (donors, projects, NGOs) to cover the component costs.

RESULTS

The project is just in its initial phases. With four promotions of borrowers to date, and a total of 200 loans made for 25.425 million FG, the project is off to a very good start. After the first two full months of operation, there has been 100 percent reimbursement on time for the five reimbursements that have come due in Mamou, and the two that have come due in each of Boké and KanKan.

Demand for the services of the project appears to be quite strong. In Mamou, where 120 loans have been made, there are still about 400 entrepreneurs on the waiting list. For a town of approximately 30,000 inhabitants, the project estimates 3,000 families with two enterprises per family, accounting for perhaps 10 percent of all enterprises in town, and probably 30 percent of their potential market.

The loans requested are for amounts at the top of the spectrum. In Mamou 70 percent of the 120 loans have been for the maximum amount — 150,000 FG — and the project average is already more than 125,000 FG per loan. The borrowers will continue to seek higher amounts and, if denied them, may become discouraged with the project.

The element providing the most confusion to date is the ongoing training. To date only about 70 percent of the borrowers have participated in the training, even though it is supposed to be mandatory. The borrowers appear to believe that training is the project's way of monitoring them.

STRENGTHS AND WEAKNESSES

Strengths

The project has adopted sound credit systems that have proven themselves in Guinea and in other countries. They are simple, clear, and adapted to the local environment, making them very usable.

The project has maintained its managerial independence from outside forces that could divert the primary objectives of the project.

The project has developed very simple and cheap operating systems. Working in small towns and targeting urban entrepreneurs, the agents do not need expensive means of transport.

Despite keeping its costs down, the project is charging an extremely high rate for its services, increasing its chances of long-term viability.

Weaknesses

Though the project has instituted a savings component, the project is nonetheless dependent on an outside line of credit for its long-term viability and growth. The likelihood of its raising sufficient local funds to cover its capital requirements is very slim, so the program will need to develop a link into the formal banking sector to access lines of credit.

Over the long run, the purely micro-orientation of the credit will pose some problems. The project has no clear plans for making larger loans or a clear system for graduating the clients into either formal programs or other projects, though these next steps are being explored.

Whether the credit being provided to most entrepreneurs is really helping them with their business or whether it is too small to be effective remains to be seen. Is the credit making the entrepreneurs busier, or is it making them richer?

INSTITUTIONALIZATION

Though institutionalization is on the minds of the project staff, it has not been their primary focus. They recognize that the three components are independent and may be split into autonomous enterprises or NGOs, depending on how well each one does in establishing a clear market and strategic plan.

The credit program offers a good chance of financial autonomy. Management of the credit fund and profitability are highly sensitive to a number of elements: cost of capital, interest rates, carrying capacity of each agent, repayment rates, and the efficiency of capital utilization. A range of scenarios has been prepared by the project staff (as a result of this review) that calculates the number of branches required to reach a break-even point without decapitalilizing the fund.

Scenario One is the most pessimistic but probably the most realistic given the record of microcredit projects around Africa. It concludes that with current costs and operating structure, PRIDE would need an average loan of 400,000 FG and need to maintain an average of 350 clients per agent (which may be optimistic) spread over 63 agents in 21 branches to break even and cover all operating costs, including a 20 percent cost of capital (so that the loan fund does not lose its value).[2] See Table 5 for the details.

Scenarios Two through Six show that under the most optimistic circumstances, only four branches and 1.7 billion FG would be required to cover all operating costs, whereas adding in a few inefficiencies in personnel and dropping the average loan by 25 percent raises the totals to 19 branches and 4.3 billion FG.

Analysis of PCAR, which has similar operating procedures, reveals that 34 branches will be required to cover its costs (with a loan fund of more than 6 billion FG). This analysis suggests that the

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[2] This also assumes the unrealistically optimistic repayment rate of 100 percent. However, it also assumes that only 80 percent of available capital is actually working, which is quite a conservative assumption. An improvement in the efficiency of the treasury functions of the project would cover one or two points of bad debt.

TABLE 5

ANALYSIS OF PROFITABILITY OF PRIDE PROJECT IN GUINEA

ASSUMPTIONS	SCENARIO 1	SCENARIO 2	SCENARIO 3	SCENARIO 4	SCENARIO 5	SCENARIO 6
Number of agents/branch	3	4	4	4	4	4
Branch Manager	1	1	1	1	1	1
Number managing clients	3	4.5	4.5	4.5	4	4
No. clients/agent	350	350	350	350	300	300
Average loan/client	400,000	400,000	400,000	400,000	400,000	300,000
Cost of External Capital	20%	20%	20%	16%	16%	16%
Cost of Internal Capital	13%	13%	13%	13%	13%	13%
% of Internal Capital	0%	20%	20%	20%	20%	20%
Weighted Cost of Capital	20%	19%	19%	15%	15%	15%
Use of Capital	80%	80%	85%	80%	80%	80%
Interest rate	36%	36%	36%	36%	36%	36%
Dossier fees	2000	2000	2000	2000	2000	2000
% of Bad loans (annualized)	0%	2%	2%	2%	2%	2%

BRANCH OPERATING COSTS (in US $$)	unit cost	total					
Manager	370	370	370	370	370	370	370
Agents	270	810	1080	1080	1080	1080	1080
Guard	110	110	110	110	110	110	110
Soc. Sec.		181	218	218	218	218	218
Rent	250	250	250	250	250	250	250
Utils	100	100	100	100	100	100	100
Depreciation	100	100	100	100	100	100	100
Total Monthly		1,921	2,228	2,228	2,228	2,228	2,228
Total Annual $$		23,047	26,741	26,741	26,741	26,741	26,741
Total Annual in FG		21,433,896	24,868,944	24,868,944	24,868,944	24,868,944	24,868,944

BRANCH PORTFOLIO CHARACTERISTICS						
Loans outstanding	1,050	1,575	1,575	1,575	1,200	1,200
Loans/year	2,100	3,150	3,150	3,150	2,400	2,400
Average amount/outstanding	200,000	200,000	200,000	200,000	200,000	150,000
Total Loan Capital out	210,000,000	315,000,000	315,000,000	315,000,000	240,000,000	180,000,000
BRANCH REVENUES						
Interest revenue	75,600,000	113,400,000	113,400,000	113,400,000	86,400,000	64,800,000
Other Revenue	4,200,000	6,300,000	6,300,000	6,300,000	4,800,000	4,800,000
GROSS REVENUE	79,800,000	119,700,000	119,700,000	119,700,000	91,200,000	69,600,000
BRANCH COSTS						
Operating	21,433,896	24,868,944	24,868,944	24,868,944	24,868,944	24,868,944
Capital*	52,500,000	73,237,500	68,929,412	60,637,500	46,200,000	34,650,000
Bad Loans	0	6,300,000	6,300,000	6,300,000	4,800,000	3,600,000
TOTAL BRANCH COSTS	73,933,896	104,406,444	100,098,356	91,806,444	75,868,944	63,118,944
Available for HQ costs	5,866,104	15,293,556	19,601,644	27,893,556	15,331,056	6,481,056
Headquarter Costs	124,763,567	124,763,567	124,763,567	124,763,567	124,763,567	124,763,567
Branches needed to cover HQ	21	8	6	4	8	19
TOTAL LOAN FUNDS NECESSARY	5,582,996,208	3,212,179,992	2,358,777,133	1,761,182,926	2,441,388,914	4,331,362,454

deviation in the project's estimated recurrent expenses once it is fully operational will be greater than anticipated. Therefore, the project should assume that it will require somewhere in the range of 20 branches to break even.

These findings reveal several critical points if the project is to seek long-term viability and institutionalization:

- Based on the above figures under the pessimistic hypothesis, the project's capital requirements would be 5.5 billion FG (at today's rate) or about $6 million. In that case the project would need to find extremely large additional resources to reach the break-even point. If such resources cannot come from outside sources of credit, they will need to be generated through increased ties to the formal banking system, which currently seeks viable activities to invest in.

- Although the project believes that it might increase its maximum loan size to 500,000 FG over the long run, this figure must take into consideration the 20 percent yearly inflation rate, which means that over a 3.5 year period all costs will double. Therefore, if the project wants to allow its participants to increase loan sizes in real terms, it should project loans of 1 million FG four years from now just to maintain parity.

- The project will need to expand considerably and rapidly to reach the 22,000 clients it needs to break even. If it is to maintain its town orientation (operating only in concentrated population areas), which allows it to keep its operating costs down, it probably will need to open branches in Conakry to achieve enough borrowers to achieve profitability.

The three program components target different elements in the society. The business training targets larger businesses, whereas the credit necessarily is for small borrowers. The business linkage center in Kamsar is an excellent idea for stimulating local production and will likely be able to gain leverage from the other two components, but it is so different in its nature that it may prove difficult to integrate properly into the overall program.

The benefit to keeping the three units together is to share the overhead costs in the central office. However, given the tremendous expansion that is required in the credit program for it to achieve sustainability, it is clear that managing all three units centrally will require the full attention of the project director, leaving him little time to address the many complicated issues related to the other elements.

An important issue for the project has been the pressure it has felt from the sponsors to deliver results in the short term rather than build up to a long-term financial and enterprise development institution. Although some pressure may be appropriate under certain conditions, pushing too hard too fast can be detrimental to the long-run performance of the project.

AGRICULTURAL AND RURAL CREDIT PROJECT GUINEA

PROJECT DESCRIPTION

Background

The PCAR in Guinea, financed by the CCCE and implemented by IRAM, began its pilot phase in October 1988. This phase was devoted to research and development and consisted of three components: a review of existing donor lines of credit for rural and agricultural financing, the recruitment and training of project staff, and testing a new rural banking system.

PCAR chose to test the applicability of the Grameen Bank methodology in Guinea and opened its first two savings banks on this model in March 1989. Although the original intention was to continue to test the system for three years with these two banks, the initial success led donors to fund a rapid expansion. Two banks were opened in 1989, 7 in 1990, and 10 in 1991.

The project was initially funded by the CCCE, which had allocated 5 million French francs (FF) for the first phase (1989 through July 1991). The Government of Guinea contributed an additional 2.2 million FF. In 1990, the EDF also began funding the project, contributing about 5.6 million FF in 1990 and 7 million FF in 1991.

At the end of the first phase, the project was extended for another three years, to end in July 1994. The CCCE and the EDF have contributed combined funding of 50 million FF for this phase, with the expectation that PCAR will have 38 operational savings banks by the end of the period. In 1992, the project also began using a line of credit put in place by USAID at the Central Bank to finance additional loans at the existing savings banks. Of this line of credit, 650 million Guinean francs (GNF) or about 3.6 million FF have been allocated to PCAR. Of the total financing currently available for phase two, about 17.6 million FF is for loan funds.

Underlying Concept

The approach adopted by IRAM for the project's first phase was to test the applicability of the Grameen Bank (Bangladesh) model to the rural Guinean environment. The initial experimentation with the peer group lending methodology proved to be a great success, with greater than 99 percent repayment rates. The underlying concept of the second phase is really twofold: reliance on peer group lending to ensure high loan repayments and building a rural banking system from the grassroots.

The project relies on the strong social fabric in rural areas to provide loan guarantees based entirely on social pressure. The local peer groups created at several levels are also the basis for ensuring control and management of the rural banking structure being put into place. PCAR's objective in the second phase is to create a sustainable banking institution that responds to the diverse needs of the rural population and which is owned and controlled by the beneficiaries themselves.

OPERATIONS

Services

Credit

Credit is the primary service provided by the project. The project is now providing two main credit products: standard solidarity group loans, which are used to finance any productive activity, and agricultural solidarity group loans. The agricultural loans are further divided into three subproducts, with different repayment schedules developed to correspond to the growing seasons in the three climactic zones where the project operates.

Solidarity group loans are made to groups of five people who agree to guarantee each other's loans. Groups are either entirely women or entirely men. Each group elects a president, who is responsible for collecting monthly repayments from every member and reimbursing the loans on behalf of the entire group. Partial payments are not accepted.

SOLIDARITY GROUP LOAN CHARACTERISTICS	
Amount:	Maximum 120,000 GNF per person in Year One Maximum 150,000 GNF per person in Year Two Maximum 200,000 GNF per person in Year Three
Repayment:	11 equal monthly payments over 12 months
Interest:	36 percent APR nominal
Solidarity fund:	1 percent of loan amount
Forced savings:	5 percent of loan amount in years One and Two, 10 percent of loan amount in Year Three, remunerated at 17 percent APR
Part sociale:	One-time 1,000 GNF

The agricultural solidarity loan groups can be composed of 5 to 10 people and may include both men and women. In other respects, they function as regular solidarity groups.

Initially, the project adopted the Grameen Bank 2-2-1 Model (only two members can get loans at first, then two more, and so on). The project found that the first two members to get a loan were redistributing the loans equally among the five members. The methodology was therefore changed so that each group member receives a loan at the same time.

When a branch office is opened, staff conduct sensitization meetings open to the public, during which they explain the general principles of borrowing from the project. People interested in receiving loans form five-person solidarity groups and submit a written loan request to the project. The group is then required to formally register itself as a group with the project. Credit officers verify the information provided by each individual about his residence and activities and investigate the person's credibility in the community.

AGRICULTURAL SOLIDARITY GROUP LOAN CHARACTERISTICS	
Amount:	Maximum 60,000 GNF per person in Year One Maximum 80,000 GNF per person in Year Two
Repayment:	Varies according to zone, maximum repayment period 12 months
Interest:	36 percent APR nominal
Solidarity fund:	1 percent of loan amount
Forced savings:	10 percent of loan amount in all years, remunerated at 17 percent APR
Part sociale:	One-time 1,000 GNF

Before it is eligible for a loan, a group is required to attend three training sessions of one hour each. During this training, the loan criteria and loan mechanisms are explained, clients learn how to sign their names, and project paperwork (loan repayment schedules, passbooks, and the like) is introduced. The necessity of maintaining 100 percent repayment rates is emphasized. The training, which familiarizes first-time clients with borrowing from a formal institution, is considered a key element in ensuring good repayment.

In areas where the project is beginning, it relies on the traditional groups of wise men to provide moral guarantees, or to screen applicants based on their reputations in the community. When enough solidarity groups have been formed (after about six months of operations), a five-person supervisory committee is formed to fulfill this function. This committee is elected by borrowers from among the presidents of the solidarity groups. The project relies entirely on peer screening and pressure to ensure good repayment rates. All loan applicants are screened by people of standing in the community, and members of solidarity groups guarantee each other's loans. Should these two mechanisms fail and repayment rates fall below 100 percent at a branch, the project ceases all loan disbursements in the community until all loans have been recovered.

Credit officers work with a menu of loan packages to determine loan repayment schedules for each client. Monthly repayment schedules of principal and interest have been calculated for all possible loan sizes (in increments of 10,000 GNF). Initially, the repayment schedules were calculated so that the final loan payment was larger than the previous payments. The project found that this caused problems with the final repayment. Consequently, the repayment schedules changed so that the final loan payment is smaller than the previous payments. All members are automatically eligible for a subsequent, larger loan if a loan is paid on time.

The project has now developed two new products to finance agricultural production — dry-season credit and medium-term credit to finance small agricultural equipment. The dry-season credit will function in much the same way as the current agricultural credit, but will finance dry season activities such as vegetable production. The medium-term credit will be available to borrowers having reached the maximum short-term credit limit, and will be available in addition to continuing short-term financing. The project will also extend this medium-term credit to clients of the Compagnie Française pour le Développement du Textile project in the Gaoual/Koundara region, who are not PCAR borrowers. The project is now looking at the possibility of introducing collective credit for cereal banks in Haute Guinée and coffee collectives in Guinée Forestière, in conjunction with projects in these areas.

Savings

In the initial project design, a savings service was available, but it was expected that borrowers would save on a voluntary basis. Saving was only open to borrowers. Borrowers did not save voluntarily as foreseen, however, and savings became a requirement under the credit program. Borrowers' savings are used to increase available lending funds, and are not used as cash collateral for loans made.

The amount of forced savings is calculated as a percentage of the loan (5 percent for first- and second-year solidarity group loans and 10 percent for third-year solidarity group loans and for all agricultural loans) and deducted from the loan at disbursement. This deposit is blocked for the one-year loan period and is subsequently returned if the individual wishes to withdraw from the credit program. If more loans are taken, this deposit remains with the project, and is augmented by additional savings deducted from the subsequent loans. The longer a client remains a borrower, the more savings is kept on deposit with the project, as illustrated by the following table:

FORCED SAVINGS ACCUMULATION				
Year	Loan	% Savings	Amount	Cumulative Savings
One	120,000	5	6,000	6,000
Two	150,000	5	7,500	13,500
Three	200,000	10	20,000	33,500

In addition, the project opened savings to the public in August 1990. To save with the project, it is necessary first to buy a *part sociale* for 1,000 GNF and to deposit and maintain a minimum of 2,500 GNF. The project pays 4.5 percent interest (17 percent APR) on savings. The project opened savings to the public primarily to increase lending funds, as almost all borrowers were requesting the maximum loans available, and donor lines of credit were insufficient to meet demand. The project on-lends up to 50 percent of savings collected.

In 1992, the project saw borrowers beginning to save voluntarily in addition to the forced savings that are deducted from the loan. In part this may be the result of a contest held by the project in January 1992 to increase savings. Prizes were awarded for the most interest earned on a savings account at the branch, regional, and national level. The project also feels that this voluntary saving is a sign of increased confidence in the project, as well as an indication that borrowers have more disposable income now that they are receiving credit at a reasonable price (compared to usury rates of 200-600 percent APR).

In response to demand, the project has also introduced two services related to the savings program. Clients, both borrowers and savers, can save with their local branch but make withdrawals in Conakry. This facilitates the purchase of supplies in the absence of a national banking system. In Conakry clients may withdraw 50 percent of the amount they have saved at their local branch, with a maximum withdrawal of 500,000 GNF. The project also makes its safes available to other organizations, including local government agencies. Each organization is limited to keeping 5 million GNF in the project's safe and pays a 2 percent management fee on the amount in the safe when money is taken out.

Cost of Credit

The project charges 36 percent APR nominal interest on a decreasing balance with equal repayments. In addition, a 1,000 *part sociale* is deducted from the first loan, and a 1 percent solidarity fund contribution and 5-10 percent forced savings are deducted from all loans.

MAXIMUM FIRST-YEAR SOLIDARITY GROUP LOAN	
Loan amount:	120,000 GNF
Repayments:	13,300 in first 10 months, 12,050 in Month 11, total repayment 145,050 GNF
Interest paid:	145,050 - 120,000 = 25,050
Deductions:	1,000 *part sociale,* 1,200 solidarity fund, 6,000 savings, total deductions 8,200 (6.6 percent of loan)
Amount received:	111,800 GNF
Interest earned:	6,000 at 17 percent APR = 1,020

The resulting effective interest rate is 20.8 percent APR (25,050/120,000). The total cost of credit to the client is 28.8 percent on the loan received (33,250 interest and deduction minus 1,020 interest earned on savings /111,800), assuming the client remains in the lending program and does not recuperate his savings. When clients elect to withdraw from the lending program and recuperate their savings and their *part sociale*, the total cost of credit is 23 percent APR on the loan received (26,250 interest and solidarity fund - 1,020 interest earned on savings/111,800).

Structure

The project operates an extensive branch structure in all regions of Guinea. Overall project administration and management is carried out by the central office in Conakry, with 15 local staff and 3 expatriates. Operations in each region are managed by a regional delegate, two of whom are currently expatriates, and two Guinean. Regional offices act as clearinghouses for all branches in the region, ensuring sound financial management and the adequate distribution of resources among the branches. There are currently 19 branches operating in the four regions of Guinea, employing 63 local staff.

The number of branches has continued to increase significantly each year, as seen in the following table.

PROJECT EXPANSION		
YEAR	NEW BRANCHES	TOTAL BRANCHES
1989	2	2
1990	7	9
1991	10	19
1992 (by October 15)	7	26
1993 (projected)	8	34

To expand geographical coverage at a lower cost, the project has also opened decentralized offices. These offices are located in smaller villages at least 25 kilometers away from the branch, and are directly managed by existing branch staff. Credit officers visit the area several times a week to see to loan disbursement and repayment. There are currently 11 decentralized office operations linked to the 19 existing branches. In 1992, the project also tested a new system of village savings banks to replace the decentralized office operations. The project rents office space in the village, buys a safe for the office, and hires a villager capable of carrying out credit and savings operations. This system has worked well so far, at a fraction of the cost of trying to manage rural credit from the branches. It is anticipated that once all 34 project branches are put into place in 1993, all further expansion will be done through village savings banks.

Each branch operates with a fair amount of autonomy, with the director responsible for paying branch expenses and managing the lending and saving cash flow. Each credit officer is also responsible for planning his own work and determining how many new loans will be disbursed over the course of the year. Each credit officer can disburse new loans to seven groups, or 35 clients, each month, and is responsible for managing outstanding loans to 250 clients at a time (100 agricultural loans and 150 solidarity loans). Each branch is evaluated every six months on seven criteria including number of loans, quality of portfolio, quality of reporting, and financial management. Bonuses are awarded to the branch on a point basis, with each employee sharing the bonus equally to promote solidarity and team spirit among staff.

Overall liquidity management is ensured by regional delegates. Each branch director calculates the excess cash flow or shortfalls at the branch level, and either remits excess funds or requests disbursement of funds from the regional office. The branch is required to keep 30 percent of all savings collected in the branch safe and can on-lend 70 percent. Excess funds are either redistributed by the regional office to other branches in need of funds, or deposited in a bank account in Conakry. Only one bank is currently accepting deposits in Guinea, and only at the Conakry branch. The lack of an adequate national banking system is problematic for the project, in that it is difficult to place excess funds and requires the project to manage continual cash transfers among branches.

RESULTS

The last publicly available results are through December 31, 1991, provided in the IRAM report of May 1992. The project is only now putting into place an accounting system appropriate to portfolio and financial management, and has only recently hired the personnel necessary to implement the system. All branches report shortly after the end of each month, but the 19 reports must be compiled by hand. Although project management is up-to-date on repayment rates at the various branches from the individual reports, it produces aggregate loan disbursement and savings results months after the end of a period. Project management sees the lack of effective management information systems as one of the project's main weaknesses up to now.

The following table, compiled from figures available in the IRAM report and project management's estimates for 1992, shows the evolution of the credit program since 1990.

CREDIT PROGRAM EVOLUTION				
	September 30, 1990	March 31, 1991	December 31, 1991	1992[1]
Number of agents	29	---	71	---
Number of groups	418	675	1,617	---
Number of clients	1,481	3,372	8,280	10,000
Loans disbursed[2]	142.3	351	876.5	1,350
Portfolio[2]	104.3	195	467	800-1,000
Repayment rate	99.2%	99.5%	96.4%	

1 Management's estimates
2 Millions of GNF

The project has continued to grow at a significant rate. The number of clients served increased 5.5 times between September 1990 and December 1991, and the amount of loans disbursed increased more than sixfold for the same period. The increase in credit activities can be attributed to the continual opening of new branches, the addition of a new credit product (the agricultural solidarity group loans), and the increase in loan sizes as clients access second and third loans. Credit staff has become more efficient as well, serving an average of 117 clients each by December 31, 1991, as compared with 51 clients each in September 1990.

Savings mobilized by the project have also continued to grow since the service was introduced in August 1990. In the 18-month period from August 1990 through December 31, 1991, 270 million GNF was collected. Taking into account withdrawals, the amount of savings on deposit with the project on December 31, 1991, was 112 million GNF, or about 25 percent of the outstanding credit portfolio. Project management estimates that there was 200 million GNF on deposit May 30, 1992, representing a 78 percent increase in savings over the last five months. The project attributes this increased growth rate primarily to increased confidence in the project. Of the 200 million GNF in savings, about 20 percent represented deposits made by credit clients. The remaining 80 percent was deposited by noncredit clients who tend to be wealthier government officials and large-scale merchants. The project has noticed an increase in voluntary savings by credit clients, and would like to see the ratio of credit clients to noncredit clients fall to 1:1.

Repayment rates have remained high at more than 95 percent, but show some deterioration at December 31, 1991. This deterioration was due to problems at three branches — Boffah, Forecariah, and Bissikima. The project cites several reasons for the repayment problems. In Boffah, the project had accepted individual payments from group members rather than requiring all payments to be collected by the president and reimbursed in total on behalf of the group. The project has since changed this methodology. In addition, it seems that both Boffah and Forecariah are urban centers with a history of bad loan repayment caused in part by local political pressures.

The project has taken measures to improve repayment rates in these three locations, and overall recovery rates had increased significantly by June 1992. In Boffah and Bissikima, all new loan disbursements were blocked as of December 1991. Since that time, the project has recovered 1 million GNF of the 4 million overdue in Boffah and all of the 2 million GNF in Bissikima. The 3 million still not recovered in Boffah represents the balances on 48 loans. In Forecariah, 2 million of the 4 million overdue has been recovered with the help of the local police and legal system, and the branch has been moved out of the city to a rural location.

STRENGTHS AND WEAKNESSES

Strengths

The project's greatest strength is its commitment to build a sustainable institution from the base — a truly grassroots financial institution owned and managed by the people it is intended to serve. The concepts of local ownership and mutual accountability are applied in a number of ways.

The project is carefully building local management capacity and increasing local staff responsibilities as management capabilities increase. It should be noted that the adoption of a "cookie-cutter" approach to loan disbursement, with advanced calculation of all possible loan disbursement and repayment scenarios, facilitates local management. Project staff is also held accountable for results through a systematic evaluation and bonus system that reinforces their commitment to measurable results.

The use of social pressure at several levels has ensured high repayment rates. Respected members of the community are directly involved in client selection to provide a moral guarantee. Members of each solidarity group are responsible to each other to ensure high repayment rates. If these first two levels of social control fail and repayment rates fall to 90 percent, peer pressure at the branch level is brought into play. All disbursements are suspended, penalizing the entire community for the poor performance of a small group of borrowers.

The introduction of savings as an integral part of the credit program, and the opening of savings to the public have served to increase both the amount of lending funds available and the local ownership of these funds. It is anticipated that the accumulated savings will play a key role in the capitalization of the formal financial institution being put into place.

The project has also demonstrated its responsiveness to the expressed needs of its clients. The original loan ceilings have been increased, and new credit products have been introduced. The agricultural credit has been tailored to the needs of farmers in the different climactic regions, and medium-term credit is being introduced for those borrowers needing more than the short-term credit currently available.

Weaknesses

As mentioned earlier, the lack of an appropriate accounting and financial management system is perhaps one of the project's greatest weakness. The project has continued to grow at a very fast pace since inception, and with 19 branches currently operational and a portfolio of nearly 1 billion GNF, a centralized accounting system is imperative. The need becomes even more acute when the lack of an adequate national banking system is taken into account. Project staff is responsible for controlling and moving large sums of money between branches, and the lack of an overall management system is a critical gap. Project management is aware of this weakness and is now establishing the necessary systems.

Although the project is committed to developing local management capabilities, the cookie-cutter approach described above represents a weakness in this regard. Adopting this simplified approach certainly ensures higher efficiency, but deprives staff of both the experience of assessing credit requirements and familiarization with loan disbursement and repayment calculation techniques.

The overall approach to credit evidenced by the limited menu of available loans, low loan ceilings, and the emphasis on short-term credit is a potential weakness for the financial institution in the future. The minimalist approach adopted, with reliance on peer group pressure to ensure good repayment rates, may have its drawbacks as some of the borrowers begin to respond to growth opportunities. The current approach is cost-effective and allows for significant levels of credit to be disbursed. It may not be as effective in responding to enterprise development needs. The maximum loan now available (200,000 GNF over 12 months) is quite small, and would not meet the needs of a client capable of growing beyond a micro-level activity.

FINANCIAL VIABILITY

Presumably because of the lack of an integrated and appropriate financial management system, financial statements and projections were not available. It is therefore difficult to assess accurately the financial viability of the project and the projected viability of the financial institution being developed.

According to project managers, the project is reaching operational self-sufficiency more quickly than projected. Although it was assumed that the CCCE would need to provide operating subsidies of 70 percent at this point in project development, the project is covering 50 percent of its local operating costs from internally generated revenue.

Total annual local operating costs, exclusive of expatriate technical assistance, are 500 million GNF, representing 203 million GNF for the central office and 285 million for the 19 branches (15 million per branch). If central office costs are allocated evenly to all 19 branches, the effective annual cost of each branch is 23 million GNF. These costs do not include depreciation, loan loss reserves, or the cost of capital. Based on figures cited for the 1990 fiscal year, it would seem that the inclusion of these costs would raise branch operating costs by about 50 percent (branches are charged 17 percent APR of the cost of funds for internal accounting purposes). The total annual operating cost per branch including allocated central office costs would therefore be in the area of 31 million GNF.

Project management estimates that the annual disbursement level, based on the 19 existing branches, is now 1.35 billion GNF (10,000 clients at an average loan size of 135,000 GNF). The average outstanding portfolio is 800 million GNF, which generates about 290 million in interest revenue, or 58 percent of current local operating costs. If the cost of capital and depreciation are added, total operating costs would be on the order of 718 million GNF, lowering the level of self-sufficiency to 40 percent.

It is difficult to determine what level of operations would be needed to break even. The project has not yet reached its optimal level of operating efficiency as measured in number of clients and amount of loans per credit officer. Credit officers are expected to handle 250 clients apiece, or 38 million GNF in loan disbursements — 100 agricultural loans at an average of 80,000 GNF and 150 standard solidarity loans at an average of 200,000. The overall project average is only about 158 clients per officer, or 21 million GNF. Were the project to achieve its expected level of efficiency with the existing branch structure and staff level, it could disburse almost 16,000 loans for total loan disbursements of 2.4 billion FCFA. At that level of operations, costs including depreciation and the cost of capital would be covered at 70 percent rather than the current 40 percent.

In addition to increasing efficiency, however, it is necessary to calculate the effects of expanding the branch structure to 34 as expected by 1993 and of systematically introducing village savings banks, which will lower costs considerably. The effect of introducing new credit products such as the medium-term agricultural credit and the collective credit must also be calculated. Based on available information, and in the absence of detailed financial projections, the chances of achieving financial sustainability seem fairly high.

INSTITUTIONALIZATION

The project is committed to establishing a locally owned financial institution by the end of the project period in 1994. Project management has already prepared draft working papers describing the new institution and proposing by-laws for the local savings banks. By December 1992, the project intended to have consulted all clients on their wishes concerning the future of the institution, through an open-ended questionnaire. From March to May 1993, the project will compare the results of the client survey with the proposals already made by the project, so that a definite proposal can be made to the concerned ministry by June 1993. A final solution should be adopted by January 1994, and the new institution should be operational by June 1994, five years after project inception.

The project is proposing a mutualist structure, or a sort of cooperative bank, that would operate at several levels. Each branch would become a legal entity itself. All of these branches would be joined into a national federation. Overall management of the federation or cooperative bank would be assured by a central office, which would manage all staff and credit operations and be governed by a board of directors including representatives elected by the branches.

The existing branches would become associations owned and managed by the clients. The existing supervisory committees, composed of elected solidarity group presidents, would become responsible for credit control, continuing to fulfill their current role. In addition, members would elect a local board of directors. The staff of these associations would be managed by the central office, which would in turn be controlled by the elected board of directors. The capital of these associations would comprise the *parts sociales* already owned by all borrowers and savers (1,000 GNF each), as well as the accumulated blocked savings linked to credit.

The project is concerned with ensuring control by the borrowers, whom the project was originally intended to serve, rather than by the savers, 80 percent of whom are actually much wealthier members of the community. Therefore, it plans to set up two "colleges" — one of borrowers and one of clients who are only savers — that will elect members of the board of directors of the branch based on proportional representation.

The branches will be grouped into a national federation with its own legal status, and will be managed from the existing central office. The capital of the federation will comprise shares owned by the principal donor and the government, with the local associations represented by a symbolic share. The federation and the central office management would be governed by two bodies, as the branches would be — a supervisory committee and a board of directors. These two bodies would comprise representatives of the donors, representatives of local branches, boards of directors, and possibly the government.

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CASE STUDIES OF EIGHT PROJECTS WITH NON-TRADITIONAL APPROACHES TO ENTERPRISE SUPPORT

A SYSTEMS APPROACH TO SMALL ENTERPRISE DEVELOPMENT IN WEST AFRICA

Numerous donor-funded projects support training, system coordination, and organizational development for micro- and small-scale enterprises (MSEs) in West Africa. This document contains brief case studies or reviews of eight donor-funded projects in West Africa that implement nontraditional approaches to enterprise support. Unlike many projects that concentrate on credit or developing access to credit (for example, business plans or feasibility studies), the projects reviewed here, listed in Table 6, concentrate on nonfinancial assistance.

APPROACHES

It is becoming more evident that projects working in isolation to assist MSEs do not have a lasting impact unless they are able to build sound systems and integrate with the local formal systems that form the base of the economy. This is true in both the financial arena and the non-financial arena. Although a heavy emphasis on long-term financial viability is now the basis for many programs concentrating on delivering financial services, the situation is not as clear-cut on projects focusing on nonfinancial services. Few, if any, projects have discovered how to deliver the technical, managerial, and marketing services profitably or cost-effectively at the MSE level. This may be because the programs have not yet figured out the appropriate services to supply, because there is limited demand for the new services (entrepreneurs are content with what is available, especially since it is often subsidized), or because the services are costed beyond the reach of most of the target entrepreneurs. Whatever the reasons, the services will have a lasting effect only if they can be integrated into the continuing environment and do not disappear at the end of the project.

The real challenge is to deliver the appropriate service — determined by the demand for that service — to the clients at a reasonable cost, hence making it cost-effective and potentially viable in the long term.[1] This is just the same as with financial services. Unfortunately, MSEs have diverse needs that often require specialized programs that are relatively expensive to prepare and execute, especially considering the client's capacity to pay. Although broader-based generic assistance can be efficiently delivered, it will probably not be as responsive to the needs of individual firms.

The result for many of the projects reviewed here has been to focus on working within discrete systems, to identify constraints within those systems, and to improve their overall efficiency.[2] This focus generates economic improvements that go beyond the cost of the particular project. The projects reviewed represent some of the more innovative nonfinancial sector projects in the region.

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[1] Depending on the nature of the program and the means available, some continuing subsidy may be justified, as long as it is recognized as a subsidy.

[2] In this paper, a system refers to a series of interdependent economic activities, whether they are tied together within a discrete subsector or whether they pertain to actors that face similar problems, in varied subsectors.

TABLE 6

PROJECTS DEVELOPING A SYSTEMS APPROACH

Country	Donor/Type	Project
Training and Consulting		
Senegal	USAID	Action Consulting Associates (ACA)
Ghana	Dutch (ILO)	Improve Your Construction Business (IYCB)
Ghana	DF/CIDA/GTZ	Ghana Rural Appropriate Technology Industrial Service (GRATIS)
Cameroon	CIDA	Strengthening Cameroonian Enterprises
Systemic Efficiency		
Senegal	IBRD	Agence d'Execution des Travaux d'Intéret Public Contre le Sous Emploi (AGETIP)
Niger	IBRD	Agence d'Execution des Travaux d'Intéret Public Contre le Sous Emploi au Niger (NIGETIP)
Organization for Empowerment		
Mali	Swiss (ILO)	Appui au Secteur Non-structuré (SNS)
Togo	USAID (CRS)	Appui au Secteur Non-structuré (SNS)

These projects represent three separate approaches that differ on the surface but have one fundamental theme: they seek to work within the existing system to eliminate constraints in a sustainable manner. They recognize the importance of addressing the problems from a systemic perspective. Four of the projects use training as their underlying methodology; the two IBRD projects seek employment generation but achieve it by rendering the private sector more efficient in a single subsector (public works), and the two informal sector projects address organizing disenfranchised economic actors to change their environment.

Improving Sectoral Efficiency through a Strengthened Private Sector

At first glance, the IBRD Public Works projects, represented by the AGETIP and NIGETIP cases, are sometimes dismissed as simply throwing money at a problem to achieve short-term employment results. But this is certainly not the case. The underlying concept to the IBRD public works projects is to improve the local infrastructure while employing as many people as possible. However, the IBRD discovered that the national government contracting systems are not able to contract projects fast enough to use the available money and meet the targets. A second important discovery was that the government agencies were not able to manage the projects efficiently after they were contracted.

The agencies manage the entire process from project selection to final approval and payment, and they do it entirely with the private sector. The list of constraints is long, but they are gradually addressing them: slow speed and limited capacity to contract services, poor design and supervision of projects, slow payment of the contractors, poor site management by the contractors, and poor bid and proposal management by contractors. Another constraint they are just beginning to address is access to finance by exploring mutual guarantee systems.

Since they have the resources to execute the works, the agencies are able to invest time and money into resolving those constraints. Some of the constraints they have resolved are:

- To increase the speed of contracting by instituting effective pre-selection and registration of firms, which allows the funds to get into the field more quickly;
- To increase the transparency in the bidding process by establishing very strict selection criteria that are open for all to see;
- To increase the level of competition among firms with similar capacities (pre-approved by the agency);
- To target labor-intensive activities to stimulate employment and move away from capital intensive contracts — because there are more projects to be carried out than there is money, the agencies are able to objectively choose the projects and attach labor intensity;
- To improve site management capabilities of the contractors by observing their operations and developing programs to respond to the most frequently encountered problems; and
- To improve the bidding process, through transparency and competition, and also by working with unsuccessful bidders to review the deficiencies in their bids and to point out ways their bids can be improved in the future.

There are many positive effects from the improved efficiency in the system. This efficiency leads to:

- Development of new labor-intensive technologies for carrying out traditional public works activities in response to the selection criteria;
- Lower prices, stemming from market transparency and increased competition as well as from the new labor-intensive technologies;
- Stronger private firms, because they are paid more regularly and quickly and are not subsidizing the state; and
- Increased registration of firms, which then become part of the formal sector (now that there is a benefit from being registered).

Although these projects accrue significant benefits for the private sector by increasing the efficiency of the sector, they do so largely at the expense of the government agencies that had monopolized these areas. This causes some conflict with these local agencies, hindering long-term operations.

Perhaps of more interest in the long term, however,is how to keep these agencies competitive, while not allowing them to establish monopoly positions at the eventual expense of the system's efficiency.

Training

The GRATIS and IYCB projects in Ghana have chosen specific subsectors in which to work — light industrial metal work and construction, respectively. Although they do not adopt as global a systems approach as do the IBRD public works projects, they focus on the problems faced by one kind of business within one subsector.

The IYCB has set up an interactive program to identify and overcome the problems facing contractors in construction. The project evolved from adapting and executing a standardized training program to addressing the wider set of constraints on the subsector. The project now looks at the issues and the constraints in the markets, on the technical side, in the regulatory environment, and the management of enterprises.

The project works with a spectrum of institutions; government agencies (Bureau of Standards) that accredit new building materials, businesses, training institutes, and the National Bureau for Small Scale Industry. Rather than just training, the project has broadened its range of activities to address more fundamental problems that handicap small enterprises in the construction sector.

Action Consulting Associates (ACA) in Senegal is one of the few projects that have already passed from the state of project to that of an ongoing local organization. Originally part of the USAID Sahel Regional Financial Management Project, the Senegalese staff from the project formed a local NGO — a fact noteworthy in and of itself. Their success, which led to this point of sustainability, stems from a very well defined and perfected methodology for developing appropriate financial management tools for MSEs and other organizations.

This methodology starts from the hypothesis that tools needed for sound management are very similar within a given activity (such as tailoring or baking) but vary greatly between activities. Therefore, the organization has developed an approach to training that focuses on the needs within a single system, selecting a homogeneous group of entrepreneurs from one subsector to develop standardized systems reflecting the real ways the entrepreneurs work. The success of the methodology might well be measured by the demand for the services by other institutions.

The results from this methodology have been fairly impressive. ACA now has a portfolio of 18 training programs, which it sells to institutions interested in training in MSEs as well as in other organizations. An important point to note is that the target market for these training programs is not the beneficiaries themselves (the trainees), but the donors or other NGOs interested in financing the services.

Some of the strengths of the organization are its management team, an excellent reputation based on its highly perfected methodology and products, and a fairly good marketing network. It has received important moral and financial support from USAID, which is gradually weaning the NGO from a financial subsidy.

The CIDA project, Renforcement des Entreprises au Cameroon, also focuses on financial training for enterprises — but enterprises of a much larger size. From a standpoint of cost-benefit analysis, the project may not provide very good results — but the project has many underlying strengths:

- The project uses local consulting firms to provide the financial analysis and training services to the beneficiary enterprises, thereby working in the local context rather than in isolation.

- It is commercially oriented because the goal is to get the firms to continue paying for the services after the program stops; and

- It is market-led, because it works with enterprises that have already established products in the marketplace and are not dependent on sales to the government.

The results of this project will be limited, in the long run, since the program will probably not work with more than 16 firms, only half of which will continue paying for the service.

Strengthening Artisans

Artisans and the informal sector have been the subject of much debate about whether they are productive and offer a solution for resolving Africa's economic woes. If so, what assistance could be cost-effectively provided beyond general systemic improvements in the financial sector or broad-based generic training? The multitude of projects tried have generally been very expensive, with extremely low returns in concrete lasting results. The target audience inevitably turns out to be too diffuse, with a rudimentary skill base and limited resources. The actors are difficult to locate, and there is no point of focus for the donors or government to deal with them. The lack of artisanal organization presents real logistical problems and makes assistance to them very expensive.

The ACA model shows one way to develop appropriate financial management systems for artisans, but this tailor-made approach still requires outside funding. The International Labour Organization (ILO) has taken another approach, which is being emulated by several other donors, led by German technical assistance, which focuses on organizing the informal sector. The concept of organizing the informal sector is not new; governments across Africa have been trying to organize it for years, so that they could provide better services or regulate informal enterprises. Unfortunately, the government-led organization of the informal sector has focused on controlling the artisans rather than assisting them. This has led to a stalemate in every country in the region.

The ILO-style projects, depicted in the two case studies on artisans in Togo and Mali, also concentrate on the organization of this widely diffuse and underrepresented group of economic actors. Based on its experience in other countries, the ILO has identified organizing the actors as the fundamental requirement for assisting them and, more important, for getting the artisans to discuss ways of helping themselves. These programs recognize that piecemeal assistance from the outside will not have any lasting effect on the artisans. By contrast, if the artisans organize to identify and resolve their training needs, to respond to problems created by the government's regulatory environment, and to meet their own financial needs, the programs will be more cost-effective and will have a lasting impact.

The search for the best way to help the informal sector organize itself has led to many trials and errors. The early projects worked very closely with the formal associations established by government services to represent the artisans, and all met with the same fundamental failure — the groups were not representative and resources were squandered (early Mali and early Togo). A next generation sought to create its own organizations (Mali), providing incentives to organize. Because the main reason for grouping together was to get project resources, the groups were not cohesive and lacked focus.

As projects experimented with savings and credit unions, which tended to work fairly well, organizing around the credit union became the approach, as tried in Benin. This too ran into problems, because the incentive for joining a savings and credit union is different from that for joining an artisans association. But in all of these attempts, a few associations have stuck. They are now serving as the core of the federations which have begun in Mali and in Togo, described in the case studies.

Among the lessons learned in carrying out these programs is the importance of time and patience, because it takes much of both to reach such a disparate part of the society.

CONCLUSIONS

We see some common themes flowing out of these projects. Although different, the projects have a common underlying approach to treat their target as part of a system that is dependent on the surrounding environment. To implement their agendas, they have sought market-led opportunities that are commercially driven. They have improved the overall efficiency within the system by coordinating the linkages with the system through market mechanisms. Often, the project will focus on one point from which it can leverage other results: for the IBRD, it is the agency; for the ILO, it is the mutual credit union. We conclude that identifying market-led opportunities that are commercially driven and seeking points of leverage to reach a very broad group of clients are two factors that will enhance project effectiveness.

ACTION CONSULTING ASSOCIATES
SENEGAL

PROJECT DESCRIPTION

Action Consulting Associates (ACA) is a locally registered Senegalese NGO with 6 principal associates and 12 support staff. With an annual budget of approximately $115,000, the association prepares and delivers financial management training programs to micro- and small-scale entrepreneurs, village associations and groups, and NGOs. It is undergoing institutionalization — moving from a project (the Sahel Regional Financial Management Project) to a self-sustaining local NGO. This is one of the first times a USAID or other donor project in West Africa has made this transition into an ongoing independent institution.

Concept

ACA specializes in delivering financial management programs to micro- and small-scale enterprises, which traditionally have weak systems and for which little well-adapted training has been developed. During the lifetime of the A.I.D. project, ACA staff experimented with a range of tools and developed an approach that has worked effectively, providing MSEs with highly adapted systems and effective follow-up. The underlying concept is that systems needed for sound management are similar within a given activity (such as tailoring or baking) but vary greatly between activities. Therefore, the classic training approach that provided the basic skills was less relevant to a specific enterprise than one that presented systems adapted to the enterprise's way of functioning. Hence the project developed a subsector approach to training, selecting a homogenous group of entrepreneurs to develop standardized systems that reflect the way the entrepreneurs work.

Methodology

The methodology for new product development is fairly standardized now and includes steps to:

- Contact the enterprises;
- Identify needs;
- Develop and test new systems;
- Train the trainers;
- Prepare the training materials;
- Train the participants; and
- Provide follow-up and continued evaluation to identify complementary needs.

The contact phase is extremely important because it establishes the rapport with the enterprises to be trained. While ACA was a project, it served as a marketing effort to prospect the subsector and identify a sufficient number of enterprises that felt they would benefit from the training. Under the current method of operation, the organizations (donors or other NGOs — called partners) for which ACA is carrying out the training pre-select the target participants, so the contact phase is most important for understanding the ways the enterprises or organizations function and for identifying the core workgroup of entrepreneurs. This workgroup will help the team identify needs and develop the systems.

The core workgroup plays a special role, serving as a focus group to help the team identify the needs and test the systems and also serving as the source of local trainers. Using entrepreneurs from the subsector to assist with the training and serve as consultants for the follow-up is an important element of the method.

The financial and inventory systems developed by the trainers respond directly to the operating procedures of the entrepreneurs in the given subsector. The focus group tests and modifies the systems until the systems respond to the needs and levels of the target entrepreneurs. After the financial systems are tested and approved, they are translated into forms for use in the workplace and for the entrepreneurs to take home. These materials are produced in the ACA printshop.

In a five-day program, the identified participants are trained in the way to use the systems and materials. The participants pay 10,000 CFA per person for the training,[1] which is from 10 A.M. to 5 P.M. each day. At the end of the training program, participants are provided with about six months' worth of forms for free; they are able to purchase new forms from ACA after their stock is used up.

Participant training fees also pay for the initial follow-up consultancy, provided by local trainers from the participants' profession. Every two months, the participants receive a visit from two consultants who review the progress the participants are making and provide them with advice and further training if needed. The consultants are paid from the fees paid by the trainees, which are set aside and not commingled with ACA funds. After the first couple of visits, the trainers are paid directly by the entrepreneurs.

The time required for new product development and delivering the initial training varies, but runs in the range of 85 staff working days. At an average cost in 1992 of 50,000 CFA per staff day,[2] a new program will cost between 4 and 5 million CFA.

Role of the Associations

One outcome from the training has been the creation of autonomous associations made up of the participants who have received training. Recognizing the opportunities provided by "strength in numbers," these associations serve a variety of purposes: to provide their own follow-up (in the case of the bakers), to serve as a negotiating body for the members for access to new markets or other available services, and to represent the members in dialogue with the State.

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[1] This is the current standard amount, although the earliest programs — for bakers and for doctor's offices — cost more.

[2] This is a fully burdened rate, covering overhead expenses.

The associations depend on the contributions of their members. For example, the tailors' association requires a 5,000 CFA initiation fee, and then 1,500 CFA per month. Some associations seek to increase their contact with current formal associations, such as the Chambre de Métiers, which are little known by many of the artisans in Dakar.

RESULTS

Table 7 presents the results of the program since its inception. It is extremely interesting to note the increased productivity of the organization since it became independent. Although only five training programs were developed and carried out during the life of the project, seven new programs were developed in the first independent year, training 210 people from 117 enterprises. Another six programs were developed in the first half of 1992.

Besides the quantitative results, it is difficult to measure the impact of the training. While the trainers believe there are immediate benefits to the participating enterprises by being able to differentiate between business and family finances, control family consumption, or improve decision making, this is impossible to verify. Beneficiaries of the training discuss better control of costs and monitoring of amounts owed to them by clients, as well as having a framework from which to evaluate trends and abnormalities in operations — which is one of the most valuable parts of financial systems for management decisions.

A subjective measure of the impact of the project is to measure the demand for the services among donors and entrepreneurs. The demand of entrepreneurs is difficult to estimate. As they must contribute a small payment for the training and devote the time, they obviously see the benefits to participating. However, the amount they pay covers only about half the physical benefits they receive (food and printed materials), without including the benefits from the training program. Some entrepreneurs note that they would be unlikely to pay the full cost of the training program (averaging 45,000 CFA per person for a five-day program for 20 people). This does not include the development costs.

Although the entrepreneurs are not interested in paying the full cost of the program, they are interested in the continuing relationship. From the enterprises that participated in the nine training programs and passed the initial follow-up period, well over half still subscribe to the follow-up service, at a cost of 5,000 CFA per visit for all but the bakers' and doctors' offices (which are more expensive), which shows their continued perceived benefits.

The demand among the partner organizations is actually the most important measure for ACA's sustainability. It proves the perceived effectiveness of the organization to produce training needed in the frame of other activities. The partners pay the full cost of developing the programs and are satisfied with the results as well as the comparatively low costs. Even when paying full costs for new product development, their demand for the products continues to increase, as is noted by the increasing number of partners (currently 19 organizations) with whom ACA is working.

TABLE 7
REALISATIONS D'ACA
FEVRIER 1992

	DATE DU DEMARRAGE	NOMBRE D'ENTREPRISES FORMEES	NOMBRE DE PERSONNES FORMEES	POURCENTAGES TOUJOURS ENCADRES*	ASSOCIATIONS PROFESSIONNELLES	REGIONS EN DEHORS DE DAKAR
TAILLEURS	6/89	115	250	60%	OUI	KAOLACK/ZIGUINCHOR
CABINETS MEDICAUX	7/89	20	40	65%	OUI	
FERMES AVICOLES	9/89	20	50	20%	OUI	
BOUTIQUES DE DETAIL	2/90	57	128	50%	OUI	
MECANICIENS	3/91	10	15	90%		
						ZIGUINCHOR
MENUISIERS	4/91	26	51	95%	OUI	
CORDONNIERS	7/91	25	50	60%	OUI	
REBOISEMENT	2/91	40	72	--	--	
BOULANGERIES	9/87	40	90	50%	OUI	
PECHE	10/91	13	13	100%		
MARAICHAGE	10/91	12	17	100%		
BIJOUTERIE-PHOTOGRAPHE		--				
GROUPEMENTS:	9/91	16	40	100%		
- BOUTIQUE DE VILLAGE	2/92					
- MARAICHAGE	2/92	8	15	100%		
- EMBOUCHE-MOULIN						THIES/LOUGA
GESTION INTERNE DE ONG						KOLDA
GROUPEMENTS BEN ADF		2	7	100%		
GIE DIVERS		2	7	100%		
TOTAL		389	846	74%	7	

* Les entreprises encadrées participent dans les activités de suivi et formation complémentaires et produisent régulièrement les états financiers. Il existe néanmoins les entreprises qui ne sont plus encadrées mais qui continuent à tenir leur système.

** Ces associations ont été crées par les entreprises ayant participé dans les activités de formation.

Evolution from Project to Nongovernmental Organization

One stated objective of the project in its last two years was to institutionalize, in order to continue to provide support to the enterprises and associations assisted by the project. The Sahel Regional Financial Management Project (SRFMP) began to carefully prepare its institutionalization well before the project ended. The leading members of the project staff created a locally registered NGO, Action Consulting Associates, which functioned in tandem with the project for the last 15 months of its project life. While working as project staff, they began putting some money aside to provide the seed capital for ACA, to help it through the early stages.

At project completion, USAID transferred to ACA all the project assets (equipment, furniture, and so forth), worth about $40,000 at the point of transfer (that is, depreciated from purchase cost) but probably with a much higher replacement value. This transfer required the concurrence of the Government of Senegal, achieved after long negotiation, and through a project implementation letter.

A.I.D. provided further support to smooth the transition of the project into an NGO, adding one extra year of long-term technical advice and a $107,000 grant to help cover operating costs over the first 12 months of operations. Since this amount was not fully expended in the first twelve months, it has been extended an additional six months, through August 1992.

The long-term advisor spent much of his time over the final year putting in place the internal accounting and management systems and procedures needed to manage this increasingly complex operation. He worked with the staff to develop new markets and demand for their services.

The cooperative agreement from A.I.D. was used to productively cover the "down time" of the staff in:

- Developing and delivering new programs — fishing and vegetable gardening;
- Developing new services to complement the traditional financial management programs — models to facilitate investment analysis and subsector-specific forms for improved organizational development; and
- Creating a management center for MSEs that provides secretarial services, a technical resource library, and an audio-visual room.

Therefore, the cooperating grant strengthened the institutional base from which ACA was operating.

New Clients and Markets

There has been an evolution in the market philosophy on institutionalization. Under the project, the stated market was the entrepreneurs, and training programs were developed to meet their needs only if there were enough entrepreneurs interested to justify the investment. At the time of training, the entrepreneurs paid for the service, even if it was subsidized. Under the NGO phase, training programs (old or new) need to be sponsored by partners that pay for the real costs of the program: wages of trainers, materials, lunches, transport, and so forth. The contributions from the participants go into a special account to pay the entrepreneur trainers who do the follow-up, not to ACA.

ACA has successfully contracted many new clients (partners), with whom it develops new products or delivers training programs already developed. The client base is largely international donor projects or local and international NGOs. International organizations are more likely to pay for new product development, which costs about 4 million CFA, while local NGOs tap into the existing training programs, which cost about 500,000 CFA to train 20 people.

New Product Development

In 1991, ACA introduced seven new training products for fishing, forestry, vegetable gardening, group management, mechanics, shoemakers, and carpenters. Only two of these programs were attributed to the USAID grant, with the others financed by new partners. In the first six months of 1992, ACA worked with 10 partners and developed 9 new products, bringing the total to 19. These new products are primarily in the realm of rural association management, in conjunction with other projects: village boutiques, gardening, animal fattening, and mill operating. Additional programs for restaurant management, jewelers, and photographers have been carried out in the urban areas.

Market Evolution

As the new product development indicates, ACA is making a distinct shift in its services, away from training urban entrepreneurs and into services that are rurally oriented, responding to the interests and needs of their clients, the NGOs. With the increasing numbers of NGOs, there is also the demand for new products to service the NGO management problems, which ACA is working on. This is likely to be a growth market over the next few years.

There is also increasing demand for the training skills and the methodology, which ACA is also addressing. Its innovative and effective training approach has been well marketed across the region and in Washington by its associates and the former long-term advisor. There is demand for services of this kind across the region. There have been very few highly successful training methodologies developed for MSEs that respond to the demands of the trainees. These factors, along with effective marketing, have led to three international contracts: one in Mali for the Peace Corps; one in Togo for CARE; and one in Côte d'Ivoire for ECOFOB. In Mali, the Peace Corps will contract with ACA to provide one year of full-time support to its Small Enterprise Development program.

The regional interest in these services is evident. ACA is more interested in disseminating the methodology than in simply establishing its own institutional viability. It is facilitating the replication of the methodology and training programs across the region. Members of the former SRFMP in Niger have opened a local branch of ACA (autonomous from ACA Senegal), and ACA expects to help open other independent NGOs in Mali and Togo, leveraging off its contracts in those countries.

STRENGTHS AND WEAKNESSES

Strengths

The greatest strengths of the program are its products and methodology. The training programs are highly developed and adapted to the entrepreneurs who are to be the beneficiaries. The participatory program development — integrating the target trainees into the product design and delivery — has been a major force in this success.

ACA has developed a very good reputation for the quality of its program and the relatively low prices (lower than those of any international group). This has established ACA in the local market as the major deliverer of financial management services for MSEs.

ACA has developed the bases of a good marketing network and has a strong ally in the long-term advisor, who has marketed ACA in Washington and to other donors, which has led to contracts in other countries. They must now build on this base.

The SRFMP management team in Senegal was very good in identifying a good opportunity and focusing the program in a deliberate fashion. The quality of the management and the focus it brought have been major success factors.

Weaknesses

Now that ACA is an independent agency, it needs to have a clear strategic approach. It needs to decide where to focus training efforts, and does not appear to have a sound marketing plan to bring in the contracts necessary to cover ongoing costs.

Although ACA has the entrepreneurs contribute to the training, they are covering only a fraction of the full costs and, therefore, cannot be claimed to be the true clients. In fact, ACA has no plans to have the entrepreneurs cover the costs of the training program.

ACA must develop a sound financial plan and adapt its prices to meet realistic expectations. The current rates were developed around an extremely high percentage of billed time, since the A.I.D. cooperating agreement allowed ACA to allocate all spare time to A.I.D. activities. With the expiration of the A.I.D. cooperating agreement, ACA's revenues will drop significantly. ACA's billing rate structure must be modified to reflect more reasonable billing ratios — allowing more overhead time for new market development — or it needs to reduce operating costs.

ACA charges only the direct cost of delivering a training program (the daily labor and ODCs) and does not add any margin for future development costs. ACA believes it is unfair to charge new clients for a product subsidized by an earlier client, but it will find itself short of funds for new product development unless it can keep the demand flowing.

SUSTAINABILITY

Development of Sources of Revenue

The new organization is well on its way to developing the sources of revenue necessary to cover its operating costs by selling its services. The agreements they have developed with their partners covered all costs in 1991 and will certainly cover most costs in 1992. As noted above, the primary market for the services is the donor and NGO community, not the beneficiary enterprises.

The A.I.D. cooperative grant has been the most important source of revenue during this first period, accounting for about 60 percent of revenue in 1991. Because ACA succeeded in finding other contracts, this grant has actually been able to last longer than anticipated. However, when it runs out, the backlog and overall billed ratio within the group will drop to the point where it covers only about 40 percent of current costs unless the ACA lands more partner agreements, changes its internal billing structure (that is, raises its rates), or reduces its internal costs.

Critical Questions for Long-Term Sustainability

ACA's clientele and markets are clearly evolving. The critical question is whether ACA can continue to develop sufficient new products in new areas (outside of financial management) to continue to interest its real clients: the donors and NGOs. Financial management questions are one set of issues but touch on only a small portion of the problems facing MSEs. Can ACA effectively develop new programs which will be of sufficient interest to individual donors and entrepreneurs?

ACA will probably have to diversify its client base to respond to financial viability questions. Does it have the capacity to develop new products for more sophisticated clients (larger firms) that are more capable of paying for the true cost of service delivery? Many such questions are strategic and depend on the capacity of the current management to follow up on the groundwork laid under the project.

SENEGAL PUBLIC WORKS AND EMPLOYMENT PROJECT
SENEGAL

PROJECT DESCRIPTION — UNDERLYING CONCEPTS

The AGETIP program was developed in 1989, as an effort to counteract some immediate effects of the structural adjustment program under the framework of the Social Dimensions of Adjustment (SDA). The program's direct goal is to create short- term jobs, and it has strong underpinnings to develop micro- and small-scale enterprises in building and public works (BTP) in Senegal. With the realization that the government of Senegal (GOS) had the capacity to absorb only about 30 percent of the funds available under the SDA for job creation, the underlying concept of the program was to create an independent executing agency to facilitate the contracting and execution of infrastructure development and rehabilitation projects, with a high intensity of labor, to ensure that more employment was created in the short term.

AGETIP was developed to substitute for government agencies whose tasks had been to carry out many of these smaller projects or to manage the contracting and supervision procedures. The program fits within President Abdou Diouf's orientations — "less State, better State" — and lives according to four main principles: independence, impartiality, efficiency, and economy. The first two principles allow the program to concentrate on stimulating competition within the system, which allows it to attain the goals of efficiency and economy.

AGETIP was created as a nongovernmental organization in 1989, under the law of 1901. It is staffed entirely with personnel hired from the private sector (no civil servants), which provides it with tremendous autonomy from the GOS. This autonomy is further reinforced by the French law of 1985, La Mehaignerie, which defines the delegation of authority for master contractors. AGETIP's 15 professional staff and 10 support staff manage a process, contracting out all elements of the program. The program was funded from nine sources for $42 million (13 billion CFA) in the first phase, with 50 percent from the World Bank and 20 percent from the African Development Bank.

MODE OF OPERATION

Program Elements

The AGETIP program applies a systems approach to the management of contracting and supervising the public works programs. It analyzes constraints at all points in the system and tries to eliminate them in order of priority. These include supply constraints, contracting procedures, qualifications of the firms, internal management of the enterprises, and finance. The project intervenes to make the entire system work more smoothly and efficiently, from the selection of projects through design, implementation, and payment. AGETIP allows competition to be a driving force throughout the process.

Project Selection

The municipalities and central government submit requests for project funding to AGETIP. If the project is below $300,000, then AGETIP has decision-making authority. If it is over that amount, then it must be sent to the IBRD in Washington for approval. AGETIP uses various selection criteria, particularly the level of labor intensity, to determine which projects are retained. The demand for financing is greater than the available budget, forcing the municipalities and the government to prepare better proposals.

Project Design

For each project, this is contracted to an architectural firm that is competitively selected.

Project Implementation and Supervision

After the project design is completed, two contracts are awarded in the final stage — one for an engineering firm for supervision and one for the construction company itself. These firms are also competitively selected, with extra attention going to innovative ways to increase the labor intensity while getting the job done at a low cost.

AGETIP manages all of these stages according to a very clearly defined set of procedures detailed in its manual of operations, developed during the first six months of the project. This manual serves as the basis for the program agreements between the GOS and AGETIP, as well as between the GOS and the financing donors.

Financial Autonomy

Under the first phase of AGETIP, all costs of the management unit were automatically covered by the program. These costs have stabilized at about 4.8 percent of the overall cost of the programs, so, under the second phase, AGETIP will simply charge a 5 percent fee on all work contracted, to cover operating expenses (which totaled about 20 million CFA per month in June 1992). Limiting the fee to 5 percent will force AGETIP to maintain its efficiency in managing the program.

RESULTS

Project results need to be measured from several standpoints: first, whether the program has met the immediate objective of effectively channeling resources through the system to create employment in public works; and, second, the impact it has had on efficiency in the system and on strengthening local enterprises.

Quantitative Results

From a quantitative standpoint, the program has met all expectations. Through December 1991, it had contracted or prepared nearly 300 projects, worth more than 10.9 billion CFA. In executing these projects, AGETIP has generated the equivalent of more than 55,000 temporary jobs (defined as lasting at least 15 days, but generally averaging 30 days) and 3,000 full-time jobs.[1]

Efficiency

The efficiency of the program can be measured in several different ways: the amount of money moved, the numbers of contracts issued, the time for issuing each contract, and the cost of the services performed compared with similar works under other existing mechanisms. As noted above, the project has moved a lot of money quickly. Because the absorptive capacity of the GOS was one of the major handicaps, AGETIP has effectively met this objective. The World Bank evaluation estimates that the time required to contract each piece of work is significantly lower for AGETIP than under normal GOS procedures, which has allowed AGETIP to contract a relatively large number of projects in the given period.

The AGETIP methodology and criteria have also led to changes in technology to employ more labor to meet the required ratios. These new approaches, along with the better management process of AGETIP, have had an effect on costs, lowering costs for standard activities by 15-40 percent below the amount paid by the administration, depending on the type of work to be carried out. This more than pays for AGETIP's contracting fee, and leads to reduced costs to the municipalities.

Enterprise Level

The impact on the individual enterprises is more difficult to measure. AGETIP addresses issues that have an impact on the companies it works with: finance, training, and organization. At an operational level, one of the biggest problems facing private enterprises servicing government contracts is timely payment. Late payments cost firms in many ways. With government paying up to six months late, the firms must seek loans to finance their working capital needs (which adds to operating costs) or must slow down their work load or operations until they are paid, or both. AGETIP makes its payments within 15 days of submission of bills, which both strengthens the internal operations of the firms and lowers the cost of doing business.

In the public works sector, AGETIP is also able to monitor the performance of individual firms as they work through proposal submission and contract management. AGETIP notices similar problems occurring in the proposal process — in pricing or in the presentation — and it runs programs to train entrepreneurs in the way to prepare proposals. AGETIP also monitors the on-site management of the contract and advises entrepreneurs on ways to improve site organization to lower costs.

Sectoral Level

One result has been an increase in formally registered enterprises to respond to the new markets AGETIP presents. Since AGETIP was founded, the number of firms formally registered and pre-qualified by AGETIP has increased from 90 to 680 firms. Many of these are newly created firms or

[1] Wade, Magatte. *Maitrise d'Ouvrage Déléguée: Cas de l'AGETIP au Sénégal*. March 1992.

Groupements d'Interet Economique (109 GIEs),[2] while many others are firms that were not registered before (primarily among the 487 artisanal enterprises). As part of the prequalifying procedure, AGETIP inspects the capacity of individual firms to carry out works and then ranks them into four levels, A to D, with D being the most sophisticated and A being the least. Approximately 60 percent of the firms fall in the A category, approved for simple jobs, while 30 percent are in B, 7 percent in C, and 3 percent (six firms) are in D (these are large multinational firms). This has essentially led to a more formalized sector with more formally registered firms, increasing the potential fiscal revenues for the GOS.

Since AGETIP is working with firms and individuals at all points in the system — architects, supervising engineers, contracting firms, and accompanying institutions such as banks, suppliers, and local administrations — the efficiency of the system improves. This process leads to an increased competition between firms at all levels and lower overall costs. These benefits should, in theory, transcend the program and replicate themselves in all other contracts due to the increased competitiveness in the system.

Side Effects and Conflicts

Several sets of conflicts arise from the AGETIP process. Since it is designed to promote efficiency and increased competition, it naturally runs into resistance from those agencies which have been the source of inefficiency or the enterprises who have benefitted from low levels of competition.

Creating AGETIP to circumvent the inefficiencies of many state agencies has also reduced their prerogatives, which is a source of friction. According to the September 1991 evaluation:

- The technical services complain that AGETIP has too much power, and they would prefer to control the financing and management of the process;
- The municipalities do not understand how AGETIP selects its projects, and believe that all their submissions should be accepted;
- The local authorities complain that the firms AGETIP hires are not as competent as their own services; and
- The local authorities would like many of their prerogatives back and would like to play an active role in the selection of projects and entrepreneurs and in managing the projects.

AGETIP's efforts to prequalify enterprises, allow smaller firms to get the small contracts, and add better structure and quality controls to the BTP sector have led to complaints from many firms that AGETIP is adding confusion to the process by bringing in too many firms and favoring the informal sector.

The sum of these complaints is to be expected from the established agencies and operators who lose when their prerogatives are reduced and transparency is added to the market. These criticisms are very healthy and show that AGETIP is succeeding in breaking through the established systems to get the job done more efficiently.

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[2] A GIE is a legal classification for a group of people who commit to undertake economic activities together. While not as structured as an enterprise, it is legally binding.

A result of these conflicts is that AGETIP must fight for its rights and stand up for the proper decisions against the interest of the local authorities. It has managed to do so, calling on authorities at the highest levels to support them in managing their activities, along the lines described by President Diouf.

The government agencies threatened face a fundamental question about their future. With the growth of AGETIP, where does AGETIP end and the government begin? Who will determine the government's role in the future? Already, the Travaux Publiques has, in essence, been liquidated and the workers have been encouraged to compete for AGETIP projects. How widespread will these impacts run?

The issue of enterprise creation versus simply developing short-term jobs is a real one. Although we have seen that the program is leading to a formalization of the BTP sector, we must ask, How solid are the firms created in a market fed purely by donor money? The enterprises created to meet the market generated by the donor funds are on shaky ground unless AGETIP can lead to an overall privatization of the system and stimulate growth in the markets through efficiency. It is certain that the donor funds will continue for a few more years, keeping AGETIP and these new enterprises funded, but its long-term survival depends on how efficient it becomes during this process.

STRENGTHS AND WEAKNESSES

Strengths

The underlying element of the project is the manual. It systematically lays out all the operating procedures and is the basis for AGETIP's agreements with the GOS and the donor agreements with the GOS. Therefore, if there are problems with the local authorities in implementing a project, AGETIP can quickly refer to higher authorities to get the problems fixed.

AGETIP has certainly benefited from good management. Using a staff hired from the private sector and providing them with incentives has led to competent, efficient output. The efficiency of the process is evident.

The political will exists in Senegal to make this work. While the authorities at the local level may feel threatened by this process, the top authorities want this to work and have supported the process throughout its first three years.

Because of the above, AGETIP has high credibility with the donors and the GOS. AGETIP has efficiently moved massive volumes of cash with very positive results. It has succeeded in most of the innovative activities it has undertaken, so the GOS and the donors are willing to give it even more authority and breadth of projects.

Weaknesses in the Process

AGETIP is an implementing agency dependent on government contracts; it does not have any other sources of funds. There may be some inherent conflicts between the objectives of the program and the objectives of the management, which wishes to continue expanding operations into new fields.

SUSTAINABILITY

Evolution of Sustainability

AGETIP is gradually moving toward institutionalization. Its start-up costs were fully funded under the first phase of the project, which allowed it to put the systems into place and determine its true operating capacity and costs. With operating costs of 20 million CFA per month, it is running at about $1 million per year. Under Phase II, AGETIP will work strictly off 5 percent commission, which it estimates is the proper ratio to cover its costs. The project is already looking beyond Phase II and anticipates going beyond the NGO stage to setting up an autonomous business.

AGETIP has proven it is an effective contractor of services and provides a protective screen from government intervention, and donors are investigating its applicability to managing other activities beyond BTP. Currently, AGETIP is running a credit program for villagers to install pumps under AfDB financing, and it is about to begin a program with the Caisse Centrale pour la Coopération Economique (CCCE), in collaboration with the Banque Internationale pour l'Afrique de l'Ouest (BIAO) and the USAID project Agence de Credit pour l'Enterprise Privé (ACEP), to manage a credit and small enterprise development project in the Medina *quartier*. It is too early to tell how successfully AGETIP will manage these activities. They are not as clearly defined as public works contracting and eventually involve selling services directly to the clients rather than living off a contracting fee. In addition, it still remains to be seen whether the donor really intends to use AGETIP as the executing agency or whether it is simply serving as a protective haven for the project staff.

Issues for the Future

As noted above, AGETIP is branching into other areas of project management, primarily in managing micro- and small-scale enterprise credit projects. Although AGETIP has developed a very efficient mechanism for managing construction projects, it is not yet certain whether AGETIP can transfer its methodology to other areas, where the process is not as clear-cut and where much experimentation is required.

An equally important issue revolves around AGETIP's special status. As an NGO benefiting from special advantages and protection from the GOS, AGETIP has a competitive advantage for getting jobs done. Will this special advantage lead it to overextend? Already, the second phase of the project has $82 million flowing through AGETIP. One needs to ask whether it is sound policy for the donors to continue to place all their resources in a protected agency. Over the long run, this may lead to inefficiencies. The very theory of competition under which AGETIP operates is one it is trying to avoid for itself, by taking the role formerly played by government monopolies. This places tremendous weight upon the integrity of the director of AGETIP.

NIGER PUBLIC WORKS AND EMPLOYMENT PROJECT
NIGER

PROJECT DESCRIPTION

The Agence Nigerienne des Travaux d'Interet Public et l'Emploi (NIGETIP) is a World Bank-funded project whose origins lie in the Bank's Social Dimensions of Adjustment program to offset the negative short-term effect of structural adjustment. NIGETIP is largely identical to the highly successful AGETIP project in Senegal, the prototype of the labor-intensive public works programs.

Specifications

Name:	Niger Public Works and Employment Projects (NIGETIP) (Agence Nigerienne des Travaux d'Interet Publique)
Project Life:	1991-1994
Total Budget:	$33.3 million: donors include IDA ($20 million), GON ($3.3 million), other donors (several European donors expected) ($10 million)
Credit Fund Amount:	Not applicable
Cost of Funds:	Standard IDA terms
Total loaned per year:	Not applicable
Number of contracts:	39 projects let through May 1992

Underlying Concept

NIGETIP began effective operation in 1991 as a non-profit autonomous agency that works with privately owned engineering consulting and construction firms to perform a wide variety of public works projects in the urban areas of Niger. NIGETIP's objectives include:

- To create short-term employment in urban areas by using the private sector, mainly small local contractors and consulting firms, on public works projects;
- To improve skills of workers and firms and improve their capacity to respond to opportunities for work after project completion;
- To demonstrate the feasibility of labor-intensive projects to test procedures enabling the private sector to commission such projects;

- To accelerate implementation and improve performance of current public works programs; and

- To provide training on feasibility studies and project proposals, increase grassroots participation in urban infrastructure maintenance, and perform preparatory work on establishment of a mutual guarantee company.

OPERATIONS

Funds for this project flow directly from the IBRD to NIGETIP. NIGETIP then pays all contracted firms, thereby circumventing Government of Niger bureaucracy. Through completion of several hundred construction and rehabilitation projects, NIGETIP plans to generate significant, although temporary, employment, while raising the level of labor and contracting firm performance.

NIGETIP, which has a staff of 15, including 8 professionals, surveyed the engineering consulting and construction firms established in Niger. There were 323 construction firms and 33 *bureaux d'études* registered with NIGETIP through this survey. These firms were then placed into four categories, depending on their capabilities. The vast majority of construction firms fell into the lowest category; only one received NIGETIP's highest rating. NIGETIP does not work with the large (international) firms that most often do major infrastructural and building work. Most projects are too small to be attractive to those firms.

NIGETIP receives requests from beneficiaries (communities, local councils, and the like) around the country for implementation of public works projects ranging from road reconstruction to rehabilitation of sewers and buildings and even painting and landscaping. NIGETIP assesses these requests and makes a preliminary selection based upon its determination of the request's worthiness, as well as NIGETIP's capacity and that of its participating companies to carry out the project.

Selected projects are reviewed by NIGETIP's engineers, and a study is done by one of the consulting firms on the NIGETIP roster. For the moment, NIGETIP uses well-established consulting firms while it works with younger firms to help prepare them to complete effective, accurate studies. This analysis generally takes three weeks and gives NIGETIP an estimate of the physical work required, as well as a budget. A tender is then advertised. Interested firms already registered with NIGETIP can purchase the bid materials for approximately 15,000 CFA. Bids are submitted, and NIGETIP selects the five most highly qualified firms for further consideration. From that group, the lowest bid is chosen. (This process does not, however, result in the lowest bid always being accepted.)

The bidding process lasts approximately two weeks. The time from initial selection through bid acceptance is four to six weeks, depending on the complexity of the study. Most work projects are short — one to four months — and are intended to be labor-intensive.

NIGETIP also gives training classes to help firms understand the bidding and estimate process and specific construction techniques, such as PERT charts. To date, it has done two 12-day seminars, each for a group of 10 persons. Along this line, NIGETIP has produced a training video for potential bidders, many of whom are not familiar with this formal process. The classes are used to make sure submitted bids are logical, practical, and in an acceptable format.

NIGETIP also works with the contractor after the project has been awarded. This is done to ensure compliance and to raise the capacity of the contracting firms — many of which are not more than one-person operations with contracted labor.

A distinct advantage NIGETIP provides the local contractors is its quick payment on contracts. In contrast to the Government of Niger, which may take weeks or months to pay, NIGETIP pays within 10 days of receipt of an invoice and claims to issue checks often on the same day billed.

RESULTS

Through May 1992, the program carried out 39 projects in two years. Fourteen of these are completed and the other 25 are under way. Labor costs represent 20-35 percent of total costs of projects, depending on the type of activity. NIGETIP's administrative costs to manage the project have ranged from 4 to 8 percent.

An indicator of NIGETIP's success, together with completion of projects, will be its re-evaluation of firms to higher levels of qualification. It is too early for this to have taken place, but the ideal is for those working with NIGETIP to see their capabilities improve through experience and training. (It could be a conflict for NIGETIP to re-rate the contractors and use that as validation of its training program.) On a broad level, NIGETIP also measures its success by the confidence it believes it imbues in the participating firms. They feel they are raising the competency levels of the firms, particularly those of young engineering graduates, some of whom are doing this type of work for the first time. Finally, NIGETIP believes that it is instilling a respect for quality work that has not been evident in previous public works projects in Niger.

IMPROVE YOUR CONSTRUCTION BUSINESS
GHANA

PROJECT DESCRIPTION — UNDERLYING CONCEPT

The Improve Your Construction Business (IYCB) project in Ghana takes a sectoral approach to solving the problems facing MSE operators in the construction industry. This approach allows the project to address the many problems plaguing the subsector. The project is executed by the ILO with Dutch funding ($537,000 for two years), and is an industry- and country-specific modification of the ILO's widely used Improve Your Business course and its Construction Management Programme, Interactive Contractor Training. The purpose of this project was to develop a training course that would address issues that have restricted growth, productivity, and profitability in the Ghanaian construction industry — primarily small-scale industry. The project did not stop at a preparing a training course but worked to address additional constraints facing enterprises in the industry.

OPERATIONS

As a point of departure, an extensive study of the sector was conducted. This study identified 44 discrete problems plaguing Ghanaian contractors and laid out a modular training program to help contractors identify and overcome these problems. The study took eight months to complete. Only then did the actual IYCB training begin.

The project provided a Chief Technical Advisor, who is a contractor and who was one of the two authors of the study and training design. The Chief Technical Advisor worked closely with Management Development and Productivity Institute (MDPI), the Civil Engineering and Building Contractors Association of Ghana (CEBCAG), the Ghana Association of Consultants, NBSSI, and the Ghana Employers Association.

Initially, the project held a training of trainers workshop for 18 people: 4 from MDPI, 11 from CEBCAG, 2 from the Department of Rural Housing, and 1 from the Manufacturers Association. Workshops were then held in all 10 regions of Ghana for owners and managers of construction firms.

These individuals were selected by the regional CEBCAGs. By August 1992, 200 owners and managers had completed a series of six one-week workshops held in all 10 regions. The goal of these workshops is to teach the contractors how to make more money from their businesses by being better project managers. Most construction work is executed on behalf of the government or parastatal organizations, so the training emphasizes efficiency while dealing with bureaucracies. The project did not contain any vocational training. (See Small-Scale Construction Enterprise in Ghana for a description of the modules.)

Participants in the training neither paid nor were paid to attend the modules. The project has been extended for six months to work with MDPI, which will take over the training programs. The Dutch have put up another $250,000 to strengthen CEBCAG and the Construction and Management Department of MDPI. It is expected that future participants, along with all MDPI students, will pay for the IYCB classes; the cost is estimated at 20,000 cedis.

RESULTS

The IYCB project takes credit for helping reduce the number of steps taken before a contractor is paid by the government. The Government of Ghana has recently agreed to let individual ministries pay contractors — unlike the old system, which required the Ministry of Finance to make all payments. Both of these actions came from the initial study and not from anything related to IYCB's training programs.

The ILO plans to extend this concept to Malawi and Kenya. It would also like to implement an Improve Your Manufacturing Business program, although that might be more difficult, because manufacturing is not as easy to target as the single-subsector construction industry.

STRENGTHS

The underlying strength of the project is that it tackles a specific, distressed sector with readily identifiable problems. Addressing one subsector from a systemic approach — looking at the issues and constraints in the markets, on the technical side, on the regulatory side, and in the enterprise management — is more likely to meet with positive results.

The instructional portion of the project began only after an extensive study of the sector. In addition, other ILO training programs were modified to make them applicable to Ghana.

The timing of the training programs was made flexible to accommodate the schedule of the participating contractors. A survey revealed that individuals wanted to attend the training not more frequently than one week in every six and not for more than half a day each day (about 20 hours a week). This caused the training to be stretched over a long period, but the program had no drop-outs.

The training programs were held in the regions; this allowed individuals to participate while still managing their businesses. (The original thought was that the training would be in Accra, but contractors cannot be away from the job site for extended periods.)

GHANA REGIONAL APPROPRIATE TECHNOLOGY INDUSTRIAL SERVICE
GHANA

PROJECT DESCRIPTION

The Ghana Regional Appropriate Technology Industrial Service (GRATIS) is an umbrella organization that provides managerial support and direction to the six Intermediate Technology Transfer Units (ITTUs) that operate in Ghana. These ITTUs evolved from the experience gained, beginning in 1971, with the Technology Consultancy Centre at the University of Technology and Science in Kumasi. ITTUs were constructed with Canadian and American assistance at Suame and Tamale in the 1980s. The ITTUs were situated in informal light industrial areas and were equipped with machinery and staff tailored to local production.

Specifications

Name:	Ghana Regional Appropriate Technology Industrial Service
Project Life:	1987-1993 (various contributions)
Total Budget:	EC, 1987-1990 — 1.2 million ECUs
	EC, 1992-1996 — 3.0 million ECUs
	CIDA, 1988-1993 — \$3.9 million (Canadian)
	CIDA, 1993-1999 — \$4.85 million (Canadian)
	GTZ, 1988-1990 — 192,000 DM
	Goverment of Ghana, 1988-1990 — 82 million cedis
	GRATIS has also received lesser amounts of funding from ODA, the Indian Government, USAID, OXFAM, SNV, and others.
Total loaned per year:	There is a nascent hire/purchase plan

The program enjoys multilateral support from the Economic Development Fund (EDF) of the European Community and from CIDA, GTZ, and ODA. In addition, the ITTUs receive lesser support from USAID, OXFAM, SNV, and others. The total budget from the Government of Ghana (GOG) was 82 million cedis (\$200,000).

Underlying Concept and Methodology

The ITTUs are the core of the program; their primary purpose is to strengthen regional grassroots industrial capacity and development. ITTUs do this through several services, including:

- An apprenticeship program of up to four years, primarily in automotive machining, repair work, and foundry work;

- For-hire services of workshop equipment for local businessmen (clients) who are loosely affiliated with the ITTU; and

- Technical training for clients and customers (those who purchase the ITTUs' products), primarily through hands-on experience in the ITTUs;

In addition, it was expected that by the very proximity of the ITTUs to small-scale light engineering and industrial enterprises, the owners and operators of those businesses and the ITTU would cross-pollinate each other with new techniques and products.

By 1987, the ITTU concept had proven sufficiently attractive that CIDA and EDF provided financial support for the construction of three additional ITTUs and the establishment of GRATIS as the umbrella organization to oversee construction and technology transfer and training at all six ITTUs.

GRATIS has since expanded by adding two new functional groups. These are the Rural and Women's Industries Division (RAWID) and the Socio-Economic and Communications Division (SECOM). Although the activities of the ITTUs are centered within workshops, RAWID is more of an extension organization that goes out to communities to work with women. RAWID has provided training programs lasting from several days to several months in areas such as beekeeping and textiles. Like the ITTUs, RAWID's training is tailored to business activities already established in the region. SECOM is GRATIS's planning, monitoring, and evaluation group that helps determine the proper location, staffing, and equipping of new ITTUs and that, in the future, will perform impact assessments of the ITTUs' activities. SECOM also prepares training and publicity materials in print and video formats.

With a new infusion of EC and Canadian money, GRATIS will construct four more ITTUs. When they are completed by 1995, there will be an ITTU in each of Ghana's ten regions. As the ITTUs are intended to operate autonomously, each having its own board and fund-raising ability, the future role of GRATIS is now under discussion. Originally, it was expected that the need for an umbrella organization would fade. This may yet be the case, but GRATIS is now in discussion with donors about possible new roles it may play. To date, GRATIS's primary focus has been in technology transfer, training, and administration. It may shift emphasis to management to assist the apprentices now beginning to graduate from the ITTUs.

OPERATIONS

The ITTU is the focal point for the activities noted above. Each ITTU admits up to five apprentices each year, who are selected through a competitive process. Once fully operational, each ITTU should have up to 20 full-time apprentices. These apprentices and the ITTU receive substantial support from revenues generated by the ITTU's production. At the time of the March 1991 evaluation, these locally generated revenues covered an average of 60 percent of the ITTUs' recurrent expenditures. The Tamale ITTU reached 89 percent — and the evaluators had thought that 95 percent would be the maximum possible, given the amount of time the staff spends on non-revenue-generating training.

Each ITTU has a board of advisors that evolves into a board of directors. Advisors or directors are generally local businesspersons, which provides another tie-in with the local business community.

This helps keep an ITTU's production and technology transfer relevant to the light industrial enterprises around it. Each ITTU also has its circle of clients, who are local business operators with an interactive relationship with the ITTU. They may be customers, advisors, individuals who come in for specific training on machinery, or businesses that receive advice from the ITTU in their own workplaces.

In addition to the technical training, the project has added a lease/purchase component for equipment where there is no other source of financing. There is a three-month grace period, the first year is interest-free, 10 percent interest is charged for the second year, and for the third and subsequent years 16 percent interest is charged. The bank collects a 4 percent fee for handling the processing. The maximum amount financed by GRATIS has been 7,000,000 cedis. Hire/purchase decisions are currently made by the GRATIS Director. The first repayments under the scheme are now coming in.

RESULTS

The March 1991 evaluation apparently considered only the Tamale, Tema, and Cape Coast ITTUs, as the ones at Ho and Sunyani were completed only in 1990. The evaluation cited the results at the Tema ITTU as general indicators. For January-August 1989, these were:

Total jobs	432
Total income from jobs	4,992,657 cedis
Rate of Working capital self-sufficiency: (recurrent expenditure financed by earned income) (In 1990, Tamale, Tema, and Cape Coast covered 89 percent, 58 percent, and 59 percent, respectively; costs include those spent on training)	60 percent
Number of tenant clients	2
Number of trainees	12 (including 2 women)
Number of visiting apprentices (local businessperson)	14

Quantifying results is an area that GRATIS has not yet worked on, but is something it expects to do in the upcoming phase. In the last 18 months GRATIS has done 12 hire/purchases. These have a five-year term through a credit facility at the Social Security and Credit Bank.

STRENGTHS AND WEAKNESSES

Strengths

The strengths of GRATIS lie within the capacities of the ITTUs. These strengths include:

- Careful determination by GRATIS of where each ITTU should be situated and which industries it should assist. The ITTU should be near the associated industrial enterprises. The evaluation implied that automatic work has been the principal source of revenue. In the north, however, there has been more focus on food-processing — shea nut and honey production;

- The selection of apprentices who already have a strong educational and experiential background in light engineering;

- Concentration on light engineering. This is an area that has not received attention from other programs and that built on a large yet struggling informal sector;

- The hire/purchase scheme, which allows individuals well known to the ITTU (and GRATIS) to get equipment for which there is no other source of financing, resolving a common problem;

- The master apprentice program, which is flexible and allows skilled owners and operators to come to the ITTUs for training on specific equipment or with specific techniques; and

- Experience, which ITTUs have built on. The ITTUs have evolved with nearly 20 years of trial-and-error experience, beginning with the Technology Consultancy Centre. Rather than starting as a raw concept, the ITTUs already had tremendous operating experience before they expanded into new areas.

Weaknesses

GRATIS has concentrated on getting its engineering and technical systems perfected and has spent little time assisting clients with managerial issues or determining the impact of its programs on beneficiaries.

SMALL ENTERPRISE DEVELOPMENT PILOT PROJECT TOGO

PROJECT DESCRIPTION

Specifications

Project Name:	Small Enterprise Development (SED) Pilot Project
Donor:	Catholic Relief Services (CRS) and USAID, with small contributions from ILO and IRCOD, a French organization
Funding and Budget:	Total donor funding: $465,351. Operating budget includes not only funds from donors but also profits from several project-sponsored activities managed by the beneficiaries. These profits cover the salaries of the managers of several project components and the direct and indirect operating costs of these activities.
Duration, Start and Finish Dates:	Four years, 1988-1992

Underlying Concept

The project goal is to assist rural artisans to improve their products and services and to expand and diversify their business operations through the project-sponsored credit, savings, technical and management training, access to specialized equipment and supplies, and strengthening of artisan associations (guilds). The underlying project objective is to develop and test methodologies to support the financial and organizational development of artisan guilds in secondary towns and rural areas. Some of the guilds have already been organized into a national association of artisan guilds, Groupement Interprofessional des Artisans du Togo (GIPATO), which has member associations in Lome and the major secondary towns. The main project zone is the northern town of Sokode, although, recently, the project also initiated savings activities in the towns of Anie and Atakpame.

The project includes six main components:

- Short-term credit for working capital and fixed assets;
- A savings facility;
- Access to specialized equipment, particularly for carpentry and metalworking;
- Formal training courses, on-the-job training, and training field visits; these cover general management, specialized technical skills and issues, the identification and development of

new products and new markets, credit and savings management, organizational development, and the training of trainers;

- A specialized retail outlet that offers artisan supplies and equipment not available elsewhere upcountry; and
- Administrative and infrastructural support for the Sokode GIPATO.

Target Group and Objectives

The target group is micro- and small-scale artisans in Sokode and its immediate environs (within a radius of 5 kilometers). The artisans are organized into guilds that specialize in a wide variety of productive and service enterprises. Among the 29 guilds (*corps de métiers*) that are members of the Sokode GIPATO are groups engaged in grain milling, fish smoking, bread baking, mattress making, rug making, wood milling, carpentry, refrigeration repair, repair of automobile electrical systems, bicycle and motorbike repair, automobile painting, hairdressing for men and women, photography, TV repair, typing services, tire repair, jewelry making, farming and fishing, printing, and soldering.

METHOD OF OPERATION

Credit and Savings Component

The loan size limits are CFA 400,000 for individual credits and CFA 800,000 for group credits. Credit applicants must have maintained a savings account with GIPATO for at least six months, and the ratio of savings to credit must be 4:1. Interest of 12 percent is charged on loans, and, although theoretically the allowable maturities may extend up to 12 months, less than 1 percent of all credits are allowed maturities of more than 6 months. The turnaround time for the process of loan request, application, and approval is generally one month. Interest of 6 percent per annum is paid on savings deposits.

The credit and savings activities are managed by an artisan (furniture upholster) who had had no training or experience in accounting or finance. A highly dedicated, motivated, and hard-working person under the tutelage of the Togolese CRS project manager, the credit manager is now an extremely effective financial manager.

Unlike most projects, the PVO project manager does not maintain daily on-site presence to supervise the credit and savings activities. Although in the early months of the project, he did spend weeks at a time in Sokode (about 5 hours overland from Lome), he now spends about one day per week at the Sokode site, where he advises, conducts on-the-job training, and monitors operations.

The GIPATO Credit Committee, composed of the elected officers of GIPATO and elected members of several guilds, determines all lending policies, on the advice of the CRS project manager. The Credit Committee exerts real authority, often taking decisions which are against the advice of the manager (for example, the manager has been attempting to persuade the committee to raise interest rates to generate additional revenues). However, the credit operation is truly a self-managed operation, and the beneficiaries appear to be more cautious, stringent, and risk-averse than most managers of other donor-run credit activities.

Training

The four main types of training include:

- Formal management training;
- On-the-job training, mainly in large private firms in Lome. The firms have agreed to accept GIPATO artisans free of cost for several months of informal training. The project subsidizes the travel and per diem expenses of the artisans;
- Study tours to Lome or to neighboring African countries to view products unavailable in Sokode or Togo and to learn how to produce these products; and
- Training courses by visiting artisans who teach specific processes or skills to the Sokode artisans.

Several short-term seminars have also been presented on the benefits and management of savings and credit in Sokode, Anie, and Atakpame. The project also trains the artisans who have participated in the management and skills training to train the other artisans in their guilds; in addition, the project sponsors courses in literacy for the artisans and their apprentices.

Supply and Equipment Store

Under the SED project GIPATO began operating a store that sells specialized supplies and equipment required by the artisans; the products include items such as automobile and building paints in a variety of colors, thread and other clothmaking and weaving materials, auto parts, tools of various types, electrical supplies and equipment, wooden boards and planks, and steel rods and plates. The store also sells products produced by some of the artisan guilds. The products sold in the GIPATO store were previously unavailable outside Lome or the neighboring countries.

Equipment Use and Rental Facility

The project has funded the installation of metalworking and woodworking carpentry shops where artisans may, for a fee, use specialized or costly equipment they are unable to purchase themselves (particularly if they do not need such equipment on a continuous basis). The use of this equipment enables the artisans not only to produce a higher quality, more refined product, but also to produce in much larger quantities than hand labor and simple tools would permit. The shop also rents some smaller tools to the artisans for use in their own shops.

Showroom and Conference Room/Classroom

With SED funding, the artisans built a showroom to display their products and a classroom/conference room where meetings, seminars, and training sessions are held. These facilities were constructed with the new brickmaking techniques (stabilized earth bricks, *terre stabilisé*) and display the distinctive style of the products produced with this process, thereby serving as an exhibition and publicity mechanism for this new process and product the artisans learned under the tutelage of a Malian artisan, whose consultancy fees were paid by the project.

RESULTS

Amount and Number of Loans

From March 1989 to September 1992, the project extended a total of 336 loans, of which 13 were to groups engaged in joint activities or sharing equipment or supplies. (The project does not lend to individuals through groups in which each member is engaged in a separate activity.)

As of 1990, the loan fund totaled CFA 4.5 million. Since that time, it has increased to CFA 15 million because of additional capitalization from a CFA 3.0 million contribution from the French group IRCOD, CFA 500,000 in profits earned by the GIPATO supply and equipment store, an ILO contribution of CFA 160,000, and CFA 7.0 million in member savings.

As of May 1992, the project credit fund showed outstanding principle of CFA 9.8 million. The additional funds available in the loan fund were not being lent due to the conservatism of the GIPATO artisan credit committee, which screens and approves all borrower requests — they do not wish to risk their own savings and credit possibilities on what they consider to be questionable borrowers or "unqualified" savers (applicants who have not met the rather stringent savings requirements established by the artisans themselves).

Clients Reached/Percent Women

GIPATO/Sokode includes 29 guild members, with a total artisan membership of 283. Each of these entrepreneurs also employs several apprentices or salaried workers, who could be counted as clients reached. Thus the total number of artisanal beneficiaries of the overall CRS/GIPATO project may be estimated at about 1,019, assuming an average of 1.6 apprentices and 1 employee per artisan (the number of artisans in the Sokode area is estimated at 500; they sponsor about 800 apprentices, or about 1.6 apprentices per enterprise).

In the credit activities, the number of clients reached totals about 453, including 323 loans to individuals and 13 loans to about 130 entrepreneurs engaged in group activities (13 groups, with an average of 10 members in each group, yielding total group clients of 130).

During 1991, 243 Sokode artisans participated in the savings activities — this compares with 199 savers during 1990. The volume of savings deposits doubled from 1990 to 1991, and net savings (savings minus withdrawals) increased by 14 percent from 1990 to 1991. The project also has initiated savings activities with the GIPATOs in Anie and Atakpame; 35 artisans in each of these towns (a total of 70) are contributing to these savings programs.

From 1988-1990, 50 artisans participated in product identification tours to Lome or Mali or were trained in various technical skills, including masonry, metalworking to produce various new products, and weaving (the production of embossed and tie-died cloth products, as well as waffle cloth). The participants represented 30 different guilds, with a membership of 464 artisans, not including the participants trained. Because the project explicitly advises and trains its training beneficiaries to act as trainers of the other members of their guilds, the total beneficiaries of this training may be estimated at 514. The total direct cost of this training was $34,898, or $67.89 per direct or indirect beneficiary. Also during this period, a management training course was developed and initial sessions were held for a group of 20 artisans.

Equivalent data for 1990-1992 on the numbers of artisans trained in technical and management skills, the direct and indirect beneficiaries of this training, the costs, and the incremental revenues and profits generated as a result of the training have been collected and analyzed by the project but were not available at the time of this analysis. Data also were not readily available on the percentage of women beneficiaries for most project activities — although for the credit component, the percentage of women borrowers from mid-1990 through mid-1991 was 22 percent. Of the 29 guild members of Sokode GIPATO, four are composed exclusively of women artisans. Although female artisans represent a minority of the GIPATOs' membership, they are represented on several key executive committees.

Repayment Rate

For September 1990-May 1991, the most recent period for which complete data were available, the credit portfolio performance was:

- On-time payments, 89 percent;

- Arrears (the definition is unclear, but these were mainly short-term arrears [1-3 months] and arrears due largely to uncontrollable factors such as delays in deliveries of necessary inputs), 11 percent; and

- Defaults, 0 percent (no rescheduling has ever been performed).

The report for the first quarter of 1992 does not provide data on arrears.

Enterprises and Jobs Created

The numbers of enterprises and jobs created are not currently measured, although project managers indicated a willingness to start collecting these data. However, it is clear that, since the start of the project in 1988, many new guilds have formed, and many of the artisan entrepreneurs have started up or expanded operations during the project period (1988-1992). This indicates some new enterprise formation and likely significant employment generation through the increase of salaried workers or apprentices who will eventually set up their own enterprises.

Links with the Private Sector

Two commendable features of the project are its use of local private sector firms for on-the-job training (no-cost apprenticeships arranged with various large private firms, mainly in Lome) and consultancies to the project (mainly in training program design and presentation, evaluation, analysis of the costs and benefits of extending project activities to Anie and Atakpame, and other technical subjects). Based on a review of several reports produced by the local firms for SED, the quality of the consultant services appears to be excellent.

Other Effects and Results

This project may be one of the few MSE training projects with concrete data documenting the costs and benefit of formal and informal training assistance. The project manager and the training coordinator understand fully the importance of monitoring any changes in business activities that may be attributed to the acquisition of new skills and methodologies. In fact, as part of the long-term management training course, participants are visited at their business sites each week to enable the training coordinator to discuss student progress, address any questions or problems encountered with course materials, and observe student application of new skills in business operations. Although the benefits of this management training have not yet been quantified, the project staff agreed that this would be an area they would be pleased and able to address (unlike many staff members of other projects, who consider such data collection an unnecessary use of staff time and funds).

Cost-benefit analyses of the direct impact of the study tours, where new products were identified, produced, and marketed by GIPATO artisans, have already been performed. The revenues and profits earned from the sales of these new products, as well as the fees paid by the artisans to GIPATO (a percentage of sales of these products), are defined as the direct benefits of this training and are compared with the direct costs of the training. For example, a cost-benefit analysis of the study tours concerning three new technologies and products (stabilized bricks, metal trunks, and embossed fabric) shows:

- Total direct costs, $15,443;
- Revenues from Sokode artisan sales of these new products through May 1991, $46,836;
- Fees paid by participating artisans to GIPATO, $2,033; and
- Artisans' profits on sales of the three products, $14,674.

Total direct benefits are $16,707 ($14,674 plus $2,033); the ratio of direct benefits to direct costs is 11 to 10. This is, of course, a very conservative definition of direct benefits, since the ratio of incremental revenues to costs (3:1) clearly indicates expanded business activity and diffusion of technology to apprentices and workers, as well as possible employment generation. Furthermore, the indirect benefits of the introduction of these new products and technologies would be considerable, although more difficult to quantify. These indirect benefits include factors such as diffusion of the technologies to other artisans (who might seek advice on the technologies or simply copy the products), as well as the various benefits derived by the consumers of the products.

In a similar fashion, the benefits from the on-the-job training could also be measured, particularly when the artisan learned a distinctive new technology (such as diesel vehicle repair or color TV repair). The benefits here include not only the artisans' incremental earnings and profits from these activities, but also the value of the expenses and time saved by the vehicle owners and TV owners, who now are not obliged to travel to Lome to obtain these repair services.

STRENGTHS AND WEAKNESSES

Strengths and Successes

The most unique and remarkable aspects of this project include:

- The fact that it is, and always has been, run entirely by host country nationals, with only advisory and oversight assistance from donors and other expatriates;

- The strong role in self-management played by the artisan beneficiaries, who had little or no prior experience in the management of such complex operations or policy making in such specialized technical areas as credit and savings;

- The high degree of cost recovery and even profitability for all activities except the training;

- The ingenious nature of the training programs, which appear to be truly appropriate — suited to the real needs of the artisans, yet delivered through creative low-cost methods;

- The direct linkage between the training provided to the artisans — a defined market — and the articulated needs and demands of the artisans themselves, thereby assuring immediate utility and impact of the training;

- The unusual and creative attention paid to cost-benefit analysis and impact monitoring, particularly for the training activities; and

- The creative fee payment scheme for training activities — although small fees are charged for the courses, the system of remitting to GIPATO a percentage of all profits realized on the new products represents a performance-based fee payment system whereby GIPATO is remunerated only for training that is clearly useful and leads to realized incremental revenues and profits.

Key Success Factors and Major Problems and Weaknesses

The brevity of the research performed for this analysis does not permit an accurate appraisal of these factors. However, it appears that several factors have contributed to the project's success:

- The imagination, dedication, experience, and competence of the CRS project manager, who has a Ph.D. in economics and finance from a German institution, and worked for seven years for several German banks before assuming his present position;

- The dedication and competence of the leadership and many members of GIPATO Sokode, particularly the training coordinator and credit manager;

- The flexibility of CRS and USAID/Togo, which have allowed this project to experiment with innovative approaches to support for micro- and small-scale enterprises; and

- The fact that the project has implicitly attempted to define and address real needs and existing market demand rather than providing credit or training for imagined needs and markets.

The project faces some problems: the small size of the loan fund, which does not permit the credit component to extend loans of a sufficient size or duration to meet the fixed asset requirements and needs of some of the artisans; and the data reporting systems, which appear to present data for each component separately and according to a unique fiscal year system (apparently, May to May or September to September), thereby making it difficult to achieve an overview of the revenues and costs of the project as a whole and also rendering it difficult to compare results with those of projects that maintain their accounts on calendar-year basis.

Collaboration with Donors

The managers of the GOT/GTZ artisan support project, which attempts to address a similar target group in Lome, reported they know very little about the CRS project, its methodologies and results, and its plans for future expansion. Improved collaboration and coordination between these two projects could benefit the projects and the artisans. In similar fashion, USAID officials appeared uninformed on the innovative methodologies and considerable successes of the CRS/GIPATO project, a weakness to which both CRS and USAID have undoubtedly contributed. However, USAID should be better informed about this project, because it is in USAID's interest to claim due credit for the successes of the project that may be attributed to USAID's financial support.

INSTITUTIONALIZATION AND SUSTAINABILITY

The project emphasizes the sustainability of the savings and credit component, the supply store, and the common equipment facility. Full recovery of direct costs for the first two activities has already been achieved. Although it is unlikely that full cost recovery for the training activities can ever be attained, the project is focusing on generating sufficient profits from the supply store operation to subsidize the training component, thereby reducing the volume of external funding required to sustain the training activities.

If additional external funding can be obtained in the near future, the project plans to replicate the Sokode model — in Anie and possibly in Atakpame. If funding is not obtained, CRS presumably will withdraw from Sokode; at that time, it is likely that the credit and savings and supply store activities will continue under the leadership of GIPATO Sokode and that the training activities will be considerably reduced or halted.

Cost of Operations

This information was not readily available, due to the accounting system, which reports costs and revenues according to each separate component and in separate monthly and quarterly reports. If an evaluation is performed upon completion of the current project (end of 1992), these data could easily be consolidated into one income statement.

Expatriate Technical Assistance

No continuous expatriate technical assistance has ever been needed by or provided to this project. CRS has provided expatriate technical assistance only in the form of short-term design consultants and other occasional short-term advisors for particular issues. The expatriate CRS country director allocates only a minor portion of his time to oversight, because he also oversees about 12 other CRS projects in Togo and the neighboring countries.

Use of Local Personnel

The project is managed by a Togolese CRS staff member. On-site managers of the credit, training, supply store, and equipment facilities are all Togolese, and all but the training coordinator are GIPATO artisans. (The current training coordinator, who was recently elected president, is a young university graduate from the Sokode area). All other managers or officers are GIPATO members elected by the general membership. All decisions concerning the savings, credit, and other project activities are made by the GIPATO membership through their elected representatives; the CRS project manager provides advice and encouragement on policy issues but ultimately controls only the use of CRS funding for organizational support, facilities, and training.

Income Earned/Sources

Data for the first half of 1992 were not fully tabulated and available for dissemination at the time of this analysis. Thus, this information is drawn largely from 1991 and 1990 data, which do not reflect recent improvements in many aspects of the project's operations.

The supply store has shown a net profit for several years. During 1991, the store earned net profits of CFA 266,509 on revenues of CFA 52.6 million. (The ratio of profits to sales is only 1:200 because of the unusual expenses associated with moving the inventory to the new GIPATO center.)

The earnings of the credit program from interest and dossier preparation fees now fully cover all direct costs of the credit activities, including the cost of capital lent by CRS. A profit is now earned, but the credit component does not contribute to the CRS project manager's salary or other CRS overhead costs. Little equipment is used (only a motorbike and a calculator — no computers), so depreciation is minor.

Complete income statements for all project activities during 1991 or for the first half of 1992 were not available; instead, partial income statements are presented in each monthly and quarterly report. There was insufficient time to tabulate and analyze all the reports provided by the project. However, additional revenues are earned for fees paid to the equipment facilities center by artisans renting or using the equipment on site, post-training fees paid by artisans who learned to produce new products, fees paid for some of the training activities, and annual and monthly membership fees for GIPATO membership.

Cost Recovery: Trends in Patterns and Future Expectation

The credit, savings, and supply store activities are all self-sufficient. The training activities are covering only a minor portion of their costs, although an additional portion is also covered through the excess profits of the supply store and gas distribution activities. The credit, savings, and supply store activities are likely to remain self-sufficient; training is highly unlikely to achieve self-sufficiency; and the facilities operation may cover its direct operating costs, although depreciation on donated equipment is not included in these costs.

Plans for Institutionalization

Plans are to expand the program to the towns of Anie and Atakpame, where GIPATOs are small and weak. (In Anie, the GIPATO owns a dilapidated building donated several years ago, as well as a generator that was inappropriate and thus has never been used. The GIPATO membership there is reportedly inactive, but eager to receive CRS/Sokode GIPATO assistance. The Atakpame GIPATO was not visited during the course of this analysis.)

STRENGTHENING CAMEROONIAN ENTERPRISES
CAMEROON

PROJECT DESCRIPTION

Renforcement d'Entreprises au Cameroun is a Canadian-funded project to help established small and medium businesses grow by providing assistance in operations, particularly with financial controls and accounting. The project, based in Douala, is now in transition between its first and second phases. The first phase lasted from 1989 to 1992, and the second phase will end in 1993. The total budget for the second phase is C$ 1,447,330.

Underlying Concept

CIDA's point of departure is that, without formalized accounting, budgeting, and other financial controls, these medium-sized firms will see their growth and profitability stymied. CIDA believes that introducing internal management controls and systems will have the most immediate impact on firm stability and growth. A key concept in the project is that it seeks to encourage formal sector enterprises to use local consulting firms to improve operations.

In contrast to many other projects, the project works only with firms that already have products established in the marketplace and are not dependent on sales to government. The first phase offered its client firms some financial assistance, but this has been dropped in Phase Two. The project uses the assistance of a Cameroonian accounting firm to help participating firms gain a solid understanding of operating costs, budgeting, and other traditional Western management techniques.

Methodology

CIDA selects firms that are doing well without these accounting systems, on the assumption that they will do better still when the managers and owners are given tools to analyze the financial health of their businesses. In a loss-leader approach, CIDA offers the pre-selected firms a free diagnostic of their businesses. This process generally takes two months and costs 2 million FCFA, paid by CIDA. The diagnostic covers internal costing, setting up accounts, and budgeting, but may also include analyses of markets and industrial processes or assistance with sourcing materials.

If the firm recognizes the value of the diagnostic and is willing to implement some of the changes that come from the study, CIDA will underwrite further work by the consultant with the understanding that the firm will eventually take over the cost of the consultant. The consultant prepares a budget for further assistance, and CIDA negotiates a cost-sharing arrangement with each firm. This managerial assistance is intended simply to guide the participating firm. CIDA's initial intervention consists of three parts: setting up the books, developing a budget that includes product costing, and hands-on training in both procedures. Neither CIDA nor the consultant is in any way responsible for the day-to-day running of the business.

CIDA's logical framework calls for numerous indicators of the project's success, but, because of the uncertain political and economic environment in Cameroon, CIDA actually uses one simple indicator to determine whether its intervention is useful to the client: Does the client eventually assume some or all the cost of the assistance CIDA provides? CIDA believes that other indicators, such as employment, revenues, and profit, are subject to too many exogenous factors over which the business owner and consultant have no control. The project manager at CIDA negotiates the share of cost coverage with each firm individually. If the firm continues to employ the consultant without CIDA assistance, the intervention is considered a success.

OPERATIONS

In the first phase of the project, management assistance was provided by the Canadians. In Phase Two, the project has moved to a local consultant. In this way, the project hopes to help participating firms while strengthening the ability of local management consultants. CIDA uses a Cameroonian firm selected from four firms that submitted diagnostics. Firms subsidized by CIDA represent approximately 25 percent of the consultant's current client base. In the future, CIDA hopes to expand the number of consulting firms involved to three to four (although it was not clear how this would happen, given that CIDA may be downscaling in Cameroon).

RESULTS

In Phase One, six firms were chosen to participate and were assisted with management consulting and advice on production and also were put in touch with Canadian firms for possible business link-ups. Employment in these firms ranged from 10 to 150 persons. The six firms fell into three financial categories:

- Two with annual revenues greater than US $4.5 million (a milk and yogurt plant and an electrical wiring contractor);
- Two with annual revenues between $250,000 and $1 million (a clothing manufacturer and a cleaning services business); and
- Two with annual revenues of less than $250,000 (a bakery and a furniture manufacturer).

After two and half years, three of these firms are still with the project. Interpersonal problems led to the drop-out of the electrical contractor. The bakery business was sold and the furniture operation never assumed a sufficiently businesslike attitude to use the assistance made available.

Of the three still involved with the project, one firm that grosses 6 million FCFA per month pays 100 percent of the cost now for the assistance it receives, or 75,000 to 300,000 FCFA per month. The two other firms make some contribution. The project hopes that these two will eventually assume 100 percent of the cost of the assistance they now receive. The firms' financial contributions go to the Canadians, who reimburse the consultant.

So far, in Phase Two, seven new firms have been selected for participation, for a total of 10. On average, these firms are larger than those in Phase One; five of them have more than $1 million in annual revenues and two have about $500,000. These firms were selected by CIDA because of their perceived potential for growth and improvement. This was done on an individual basis after the CIDA staff had familiarized itself with the local companies. All are Cameroonian owned and operated. In Phase One, CIDA staff had learned that the larger the firm, the more likely it was to benefit from assistance.

The seven firms include a paint manufacturer; a t-shirt importer; a plastics manufacturer (primarily bags for dry cleaning and banana plants); a bottled water operation; a woman-owned furniture maker; a corrugated box plant; and an underwater equipment maintenance operation (for the oil industry).

STRENGTHS AND WEAKNESSES

Strengths

The success of the project is determined by the value the client sees in the consulting he or she receives. As the Canadian subsidy diminishes over time, the client's true appreciation of the assistance received is revealed by willingness to pay. (So far, the project is batting something well under 50 percent).

Working through a local consulting firm instead of through technical assistance strengthens local consulting capacity and, at the same time, demonstrates to the local enterprise community the benefits of using consulting firms, stimulating demand for services that will increase operations.

Weaknesses

The project is not reaching many clients and is not likely to add many others.

The project is essentially providing a free good, in the short term, to a few firms selected in an unsystematic way. There are many firms in Cameroon of this size that utilize accounting firms in this manner — without any subsidy. There does not appear to be any difference between CIDA-supported clients and those who pay the consultant the full price of his services.

The project does not resolve the traditional hesitancy to set up formalized accounting systems, because owners are concerned this will expose them to more intrusive government supervision. Although the project does address internal management issues, it does not address any impediments to business development in Cameroon.

SUPPORT TO THE INFORMAL SECTOR
MALI

PROJECT DESCRIPTION, UNDERLYING CONCEPT, AND METHODOLOGY

The ILO project on the Non-Structured Sector (SNS) in Mali has its origin in the first wave of three ILO projects focusing on the informal sector in Africa. The other two projects were in Rwanda and Togo. Based on studies carried out between 1978 and 1981, the project design focused on understanding the informal sector and ways to identify and improve the kinds of assistance offered to the informal sector. As an experimental and exploratory project, one of a series implemented by the ILO's Informal Sector Department over the past 15 years, the project has had many ups and downs. It was nearly shut down in 1989 but introduced new approaches in 1990, which had come out of other ILO projects in Africa. It has provided much extremely valuable information and experience for the ILO in its quest for appropriate assistance to the informal sector.

The project formally began in 1982 with Swiss funding. It will complete its fourth phase at the end of December 1992, which will also signal the end of Swiss financing. The last long-term technical advisor left the project at the end of June 1992. The project is expected to continue under a new structure, reviewed below, financed by the Caisse Centrale pour la Coopération Economique (CCCE).

The project has two underlying concepts: that gaining recognition of the breadth of the informal sector and the role it plays in the local economy is critical to reforming the policy environment in which it operates; and that the informal sector must be organized to improve its productivity. Within these two areas, there are many subsets.

Organizing the target group and rendering it self-sufficient are the main focuses of the project. Self-management, self-financing, and training are the three fundamental inputs required to improve the productivity of the informal sector. Given these elements, the informal sector will be able to improve its overall performance while protecting itself from unfair or distortionary government policies.

In order to complete this role, the importance of the informal sector's economic, employment, and social roles must be recognized by the local authorities and the agencies assisting the economic development of the country.

The methodology has been quite haphazard, changing with each group of technical assistants over the various phases of the project. The project came under extreme criticism in the 1989 evaluation for not having any consistent and thought-through strategy for achieving its goals.[1] In the final phase, redesigned after the evaluation, the methodology has been carefully monitored from Geneva. The final phase of the project has changed from providing technical assistance to ensuring that the capacity of the informal sector is strengthened. The ILO has two principal objectives for the final phase:

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[1] This evaluation was carried out by all the concerned actors, the donor (Swiss), the Government of Mali (GRM), the ILO, and the artisans.

To contribute to the recognition of the informal sector as a separate economic entity having its own specific means of functioning on the Malian labor market and contributing to the stability of employment, and to actualize the potential of existing human resources;

To consolidate and increase the independent capacity for action and organization and for financing the artisans supported by the project. This consolidation should ensure lasting access to technical, economic, and financial factors of production that will increase their level of output and earnings.[2]

PROJECT OPERATIONS

During the first seven years of the project, the operations aimed at improving the conditions of the artisans; recognizing of the artisans in the informal sector as actors and partners in the national economy; improving the efficiency of the different productive sectors to increase capacity to create jobs and access new markets; and the socioeconomic and financial autonomy of the associations.

The technical assistance concentrated on working with artisans in the public works sector (80 percent of project beneficiaries). In the early phases, the technical assistance identified the beneficiary groups and approached them with the following instructions: organize yourselves into a group, constitute an association, put in place your officers, collect some money through membership fees, and find a plot of ground.

Once these steps were completed, the technical assistance contributed the following elements: grants of equipment and tools to build workshops, whose principal function was for training and partial production of goods requiring special equipment; grants of machine tools; grants of raw materials; technical, management, and literacy training; and assistance in market research.

RESULTS

Results from the First Phases

Although the project worked with eight associations over the first seven years and created a Federation of Artisans in Bamako, the results were mixed. The conclusions of the 1989 evaluation were that the associations were not becoming any stronger. The process was stagnant in many areas.

- It was a technical assistance-driven project, rather than an artisan-driven project, so the solutions were brought in from the outside;
- The associations became used to the support and financing of the project and lost interest in attracting local financial support;
- The prior federation had been dependent on the Office Nationale de la Main d'Oeuvre et de l'Emploi (ONMOE) and had worked with the Office against the project;

[2] Project Paper (MLI/89/MO9/DDA). Translated by the author.

- The early heads of the original associations were experienced artisans but used the associations largely for their own benefit and did not encourage democratic traditions or allow new initiatives;
- There was very little transparency within the associations; and
- The Fedération de Bamako was not an emanation of the artisans, who maintained distance from it.

Operation and Results in the Final Phase

As noted, the project was significantly refocused in its final phase. The project needed to regain its balance by rectifying some constraints observed during the first phases — by increasing the stake of the artisans in the operation of the project, increasing the links between the different associations and the Federation, and improving the technical resources being supplied.

In addition, the new project needed to resolve a control problem: since there was a significant lapse in the presence of a technical advisor for the project, ONMOE had taken over the operations of the project and managed the relations with the associations, actually using it as a power base for the Office. The Office "sought to control all activities of the project"[3] rather than to determine how to expand its field of actions.

When the new advisors arrived for the final phase, they were told to assess the situation and to terminate the project if the situation was incorrigible. They determined to continue with the project and sought the evolution of the associations from their current management structures, built from the bottom up to create more democratically run associations that responded to the needs of the members. The issue facing the associations was how to force the evolution in the leadership, to move into a second, younger generation of members.

The focus of the project turned toward increased interaction between the project and the artisans and to improved representation by the associations. On the first point, the project sought the help of the artisans in selecting the project's local *animateurs* (facilitators), developing training programs taught by one another rather than by outsiders, and seeking new markets.

On the second point, representation of the associations, the project was greatly helped by the overall social unrest and upheaval, which culminated in the overthrow of Traore in March 1991. The fervor for democratization which followed facilitated the changes toward greater representation within the associations.

Associations

During the final three years of the project, significant resources were put at the disposal of the artisans. The project worked with eight associations in four cities, helping them finish the centers and equipping them with machinery — sometimes with loans and sometimes with grants.

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[3] Rapport final, Jean-Louis Velazquez, janvier 1992, p. 5.

Training

During the final years, the project worked with about 600 artisans in the nine associations. It sponsored 83 training programs, varying in length from 2 to 156 hours, attended by 608 artisans. Of these training programs, 73 focused on technical issues and 10 on management skills and literacy. Although much of the technical training concentrated on improved techniques for existing activities, several were devoted to new product manufacture.

Savings and Credit Funds

In response to the constant need for capital, the project spent much time developing savings and credit funds in the associations. Seven associations started them, using methods developed in other countries (Rwanda and Togo) and tools and systems already developed locally by other projects, such as the Kafo Jiginew, the most successful rural savings and credit fund in Mali. In October 1991, after six months in existence, four *caisses* had accumulated nearly 6 million FCFA for 230 members.

New Product Design

New products for which there is a potential market were studied by the project, with the technical assistance developing about 40 new products. Emphasis has been placed on new product design, but market development is more difficult.

New Market Development

Tight markets constitute the fundamental constraint to the informal sector and are one of the fundamental reasons for organizing for most of the associations. Under the project, the associations made some inroads in capturing new markets, but several important points need to be highlighted:

- **Capturing existing markets**. Breaking into new markets, particularly the formal ones are controlled by the government, is the dream of the artisan in the informal sector. However, this is not easy. During the project, most public contracts won came through subcontracts. This is mainly because of the lack of transparency in the public system and favoritism in the award of contracts.

- **Difficulty of managing complex contracts**. It was extremely difficult for the associations to manage contracts involving more than two or three trades. Therefore, a clear conclusion was to limit association-managed contracts to simple levels.

- **Participation in trade fairs and the Cooperative de la Féderation des Artisans Malien (COFAM)**. COFAM was organized by the artisan associations and was set up in the French Cultural Center. It serves as a fixed point of sale for all of the member associations, giving the artisans a place to permanently promote their products.

Lobbying Force with the Government

One long-term goal is to create a more unified front on the part of the artisans to interact with the state. There have been few concrete results in this arena, although specific areas have been identified: government procedures for awarding contracts, taxes and methods of taxation, and protecting local markets. In December 1991, the Federation of Artisans organized the Seminar on Artisanry, where all the associations met, under their own initiative, to discuss the relations with the state.

STRENGTHS AND WEAKNESSES

Strengths

The final phase of the project has developed several critical points that have strengthened the overall operations of the project:

- It increased the participation of the target groups in the operation of the project, leading to better selection of *animateurs* and relations between the project and the artisans;

- It restructured many associations so that they became emanations of their members and not a power base for one or two older, more established artisans;

- It led to the creation of a new Federation of Artisans of Mali, replacing the previous politically connected heads of the Federation of Artisans of Bamako with new officers who represent their members;

- The project integrated the lessons learned from other projects and the methodologies developed in other countries for ways to increase the self management of the associations; and

- While maintaining relations with the government, the project has strengthened the independence of the artisan associations from the government and from other outside interference.

Weaknesses

Although it has achieved some successes, the project has touched a limited number of artisans. The project has set a precedence for assistance to the eight associations it worked with, while the other associations that would like assistance have limited prospects for help.

PROSPECTS FOR THE FUTURE

In the future, the project must focus on the ability of the artisans to carry on the work on their own. As noted above, the project worked with perhaps six hundred artisans out of the tens of thousands in the country. In terms of reaching a significant percentage of the target population, the project has barely made a dent. The more important and lasting impact will be in the Federation des Artisans du

Mali, started in April 1992. The federation has 41 member association and offers the beginnings of a self-managed artisan power base.

The federation is still in its infancy, and many of its member associations exist only on paper, without any real activities or achievements to date. Many of the new associations are remnants of the old *syndicats*, which were government-initiated labor unions. The *syndicats* were *quartier*-based organizations, ostensibly to protect the rights of the artisans — in reality, they were bureaucratic means to control the artisans, providing official channels through which the artisans had to pass requests. The power of the *syndicats* has been virtually eliminated since the events of early 1991. As a result, many of the *syndicats* have reformed themselves into associations, symbols of their new freedom. The associations provide them with greater autonomy to reach the political decision makers directly.

The artisan members of the new associations, however, tend to see the associations as a point toward which outside assistance can be channeled. Following meetings with three of the new associations, it is clear that they want outside assistance and want donor agencies or the government to provide them with resources: land for centers, equipment, markets, and loans.

Although the project has finished under its current form, CCCE will finance the next phase of the activity. It will provide assistance to all members of the federation rather than to a few preselected groups. The concept is to create a boutique where associations can order just the short-term technical assistance they want, rather than to have a set of long-term advisors. The focus will be on strengthening the capacity of the associations to manage themselves.

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