Midterm Evaluation of the Community and Enterprise Development Project in Senegal

Prepared for the U.S. Agency for International Development under contract number PDC-1096-I-24-4159-02

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David P. Harmon, Jr.
Team Leader

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AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT IDENTIFICATION DOCUMENT FACESHEET (PID)

1. TRANSACTION CODE: A = Add, C = Change, D = Delete — Revision No.

DOCUMENT CODE: 1

COUNTRY/ENTITY: Senegal

3. PROJECT NUMBER: 685-0260

BUREAU/OFFICE: Africa — A. Symbol — B. Code: 06

5. PROJECT TITLE (maximum 40 characters): PVO Community and Enterprise Development

ESTIMATED FY OF AUTHORIZATION/OBLIGATION/COMPLETION

- A. Initial FY: 83
- B. Final FY: 89
- C. PACD: 89

7. ESTIMATED COSTS ($000 OR EQUIVALENT, $1 =)

FUNDING SOURCE		LIFE OF PROJECT
A. AID		9,000
B. Other U.S.	1. Peace Corps	Not yet estimated
	2.	
C. Host Country		2904
D. Other Donor(s)		896
TOTAL		12,800

8. PROPOSED BUDGET AID FUNDS ($000)

	A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. 1ST FY 83 1. Grant	D. 2. Loan	E. LIFE OF PROJECT 1. Grant	E. 2. Loan
1)	SDP	200B	250		3172		9,000	
2)								
3)								
4)								
TOTALS								

SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

070 | 110 | 112 | 240 | 610 | 920

10. SECONDARY PURPOSE CODE: 760

1. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BS	TECH	PVOU	PVON	TNG	PART
B. Amount						

2. PROJECT PURPOSE (maximum 480 characters)

1) Create a capacity in village organizations to carry out development projects without external assistance.

2) Assist small enterprises so that they will sustain their own development.

3. RESOURCES REQUIRED FOR PROJECT DEVELOPMENT

Staff: USAID Project Design Officer (DH); social analyst (contract), RLA (DH) and contract officer (DH); PVO and village organization specialist (contract); small-scale enterprise and appropriate technology specialist (contract) BUCEN/SEU evaluation planner (PASA)

Funds

OE Funds
Mission PM and R Funds

4. ORIGINATING OFFICE CLEARANCE

Signature: David Shear *David Shear*

Title: Director, USAID/Senegal

Date Signed: MM DD YY — 4 22 83

15. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

6. PROJECT DOCUMENT ACTION TAKEN

S = Suspended, A = Approved, D = Disapproved, CA = Conditionally Approved, DD = Decision Deferred

17. COMMENTS

8. ACTION APPROVED BY — Signature — Title

19. ACTION REFERENCE

20. ACTION DATE: MM DD YY

ACRONYMS

AID	Agency for International Development
BCEAO	Banque Centrale des Etats de l'Afrique de l'Ouest
BIAO	Banque Internationale pour l'Afrique Occidentale
BNDS	Banque Nationale pour le Développement de Sénégal
BSK	Banque Sénégalo-Kowéitienne
C&ED	Community and Enterprise Development Project
CDD	Comité Départmental de Développement (Department Development Committee)
CDH	Centre de Développement de l'Horticulture (Horticultural Development Center)
CER	Centre d'Expansion Rurale (Rural Extension Center)
CLD	Comité Local de Développement (Local Development Committee)
CNCAS	Caisse Nationale de Crédit Agricole au Sénégal (National Agriculture Credit Bank of Senegal)
COP	Chief of Party
CRD	Comité Régional de Développement (Regional Development Committee)
CRS	Catholic Relief Services
DAP	Direct Assistance Program
ENEA	Ecole Nationale d'Economie Appliquée (National School for Applied Economics)
EOP	End of Project
FCFA	Francs de la Communauté Financière Africaine (African Monetary Unit)
FY	Fiscal Year
GOS	Government of Senegal
IPVO	International Private Voluntary Organization

IRR	Internal Rate of Return
LOP	Life of Project
MFR	Maisons Familiales Rurales (Rural Extension Units)
MSI	Management Sciences International
MU	Management Unit
NCNW	National Council for Negro Women
NPC	National Project Committee
NTF	New Transcentury Foundation
OEF	Overseas Education Fund
OFADEC	Office Africain de Développement et de Coopération (African Office of Development and Cooperation)
OICD	Office of International Cooperation and Development
PACD	Project Assistance Completion Date
PADEC	Pan Africain pour le Développement Communautaire
PDO	Project Development Office
PID	Project Identification Document
PP	Project Paper
PRO-AG	Project Agreement
PVO	Private Voluntary Organization
RDA	Rural Development Agency
ROI	Return on Investment
SBA	Small Business Advisor
SBAU	Small Business Advisory Unit
SGB	Société Générale de Banques au Sénégal
SODEVA	Société de Développement et de Vulgarisation Agricole (Agriculture Extension and Development Organization)

SOFISEDIT	Société Financière Sénégalaise pour le Développement de l'Industrie et du Tourisme
SONABANQUE	Société Nationale de Banque
SONEPI	Société Nationale de Promotion Industrielle (National Company for Industrial Promotion)
SSE	Small-Scale Enterprise
SYOB	Start Your Own Business Program
UMOA	Union Monétaire Ouest Africaine
USAID	United States Agency for International Development
USB	Union Sénégalaise de Banque pour le Commerce et l'Industrie
USDA	United States Department of Agriculture
VO	Village Organization

EXECUTIVE SUMMARY

This midterm evaluation was undertaken to measure the progress to date of the Community and Enterprise Development (C&ED) Project and to recommend modifications in project strategies and implementation to help ensure success by the project assistance completion date (PACD).

The C&ED project has two purposes: to strengthen the capacity of village organizations (VOs), through private voluntary organization (PVOs), to carry out development projects that benefit both the VOs and the region; and to assist small scale enterprises (SSEs) to carry out increased and self-sustaining business activities:

- The PVO component has grant funding to strengthen the PVOs and a $750,000 revolving credit fund to funnel through the PVOs to VOs for financially viable group activities. Also, the PVOs are to train the VOs in credit management so that they will eventually be able to receive bank funding directly.

- The SSE component consists of a revolving credit fund of $450,000 and aims at providing the services of a rural bank, under strict business criteria and on sound business principles. It has the potential to be profitable and to be incorporated into a formal banking institution at PACD. Its lending criteria aim at both financial benefits for the entrepreneurs and developmental benefits, including increased economic activity and employment.

The project began in September 1985. Project staff spent the first six months preparing the implementation strategies and the second six months laying the groundwork for implementation. It was not until August 1986 that implementation really began with the first loans made to small enterprises. In October 1986, the first PVO was approved for participation.

To date, the SSE component has been a success. Still early in its implementation phase, the SSE component has made 95 loans, totaling over 120 million CFA ($400,000); has had no loan defaults; has only four late payments; and is strengthening the firms. Moreover, the loan portfolio is growing every month. The component's success is due to the use of sound business principles and very thorough implementation by the SSE specialist. The advisors are well trained and maintain close contact with the entrepreneurs, providing pre-financing counseling and assistance with preparing business plans.

The PVO component has been plagued with administrative delays. These are the result of inherent PVO managerial and operational weaknesses, which must be corrected prior to acceptance of the PVO. These also result from the proposal preparation and approval process of the National Project Committee (NPC), the initial phase of which is lengthened by the weaker PVOs. The NPC has approved four PVO grants to assist 42 VOs.

The project is now entering its implementation phase. The SSE component is at the stage at which it must revise basic strategies relating to its target group and the size of loans made if it is to be successfully institutionalized at PACD. The PVO component also has important changes to make if it is to test successfully the hypothesis that PVOs can be effective providers of goods and services to the rural community and, thus, represent a viable alternative to traditional government organizations.

KEY FINDINGS

- The two components of the project have functioned separately from each other. There has been little communication between them and little cross fertilization of ideas and creation of synergies.

- The SSE component can become profitable and self-sustaining in the future. However, it must refine its strategy to achieve these two objectives before PACD to attract a parent banking organization and ensure its institutionalization. Accomplishing these goals will require an intensive effort on the part of the SSE specialist and his counterpart, focused on those objectives alone. Their efforts should not be diluted by other project activities, such as the Start Your Own Business (SYOB) program.

- The target group of the SSE component does not constitute a large enough market for the Small Business Advisory Unit (SBAU) to achieve profitability. The average loan size and number of loans per advisor are too small for the SBAU to break even. This is in large part a function of the limited definition of the target group and the restrictive loan criteria applied by the SBAU.

- The PVO component must reduce its PVO numerical target to six to eight potentially viable PVOs. Its focus must be on ensuring that participating PVOs are effective, lower cost, and more flexible providers of goods and services to farmers than are local government organizations.

- The PVOs are managerially weaker and require more training than anticipated. The Management Unit (MU) is not properly staffed on the PVO side to provide all the PVOs' training needs. The MU should focus on responding to the needs of its target group before it gets sidetracked by other project activities. The Direct Assistance Program is one such proposed activity, which would require additional resources that the MU does not now have.

PRINCIPAL RECOMMENDATIONS

Below are the principal recommendations of the evaluation team with the party that should take the appropriate action.

SSE Component

1) Expand the target group and raise loan ceilings. These actions will tailor the loan portfolio to meet project and USAID as well as bank requirements.

   Action: Project; USAID/NPC approval

2) Immediately transfer 104 million CFA from the PVO grant subcomponent to the SSE component to ensure enough capital funds to attain profitability.

   Action: USAID; NPC approval

3) Establish communications with likely parent banks for future adoption of the SBAU.

   Action: Project

4) Use the financial management advisor's banking skills to review SSE strategy changes and to develop computerized management information systems to aid management decisionmaking.

   Action: Project

5) Continue intensive training of the business advisors and increase their marketing capabilities.

   Action: SSE specialist

6) Hire two new business advisors, one to replace the terminated advisor in Koungheul, and another for the Kaolack zone.

   Action: SSE specialist

7) Concentrate on ensuring the success of the SBAU and its institutionalization and do not implement the SYOB.

   Action: Project

PVO Component

1) Limit the number of participating PVOs to six to eight to ensure an adequate test of the basic hypothesis.

   Action: Project; USAID approval

2) Develop the necessary skills in credit and organizational development to be in a position to carry out new implementation requirements. This may require either training existing staff or hiring new personnel.

   Action: Project; USAID approval

3) Involve the NPC members as resources for the project and as catalysts to start government policy changes with regard to the PVOs, such as reducing the degree of government supervision of PVOs and increasing PVOs' abilities to raise funds.

   Action: Project, NPC.

4) Increase the PVO component's contact with the SSE component to derive synergies from the project's lending activities.

   Action: Project.

CHAPTER ONE
PROJECT BACKGROUND

OVERVIEW

A joint evaluation by the U.S. Agency for International Development and Government of Senegal (GOS) of USAID/Dakar's program in 1979 concluded that GOS-provided agricultural services were not fully meeting farmers' needs for goods and services. Thus the Community and Enterprise Development (C&ED) Project was designed, as a pilot project, to determine if private voluntary organizations (PVOs) were a more effective alternative to traditional government services in meeting small farmer needs. Under the aegis of the project, PVOs are funded and trained to reach and improve village organizations (VOs) in conducting their agricultural and agriculturally related activities.

The second component of this project is its small-scale enterprise (SSE) activity, which targets small-scale entrepreneurs, rural and urban, with credit and training. This component was designed in response to new AID/Washington directions in 1982, and was then combined with the PVO component. As an experimental project, not only for Senegal but also for the rest of Sahelian Africa, its results have important future implications for AID.

The PVO component has a large ($2.5 million) grant subcomponent, as well as training and credit fund subcomponents. These enable the project to make grants to selected PVOs to develop the necessary infrastructure, managerial and technical, to reach VOs. The PVOs are to provide them with the necessary technical assistance and access to credit, so that ultimately the VOs have the management and financial capabilities to access credit directly through the banking system.

Both the PVO and the SSE components have training and credit activities. Training for PVOs is conducted to improve their organizational, management, and planning skills; their financial management and budgeting skills; and their ability to deliver credit and obtain repayment. Training on the SSE side involves three audiences. The first is composed of the project's business agents who are trained (and retrained) in client/business identification, project analysis, lending, and loan repayment. Second is the SSE client, who receives training indirectly (or directly on specific topics if the client so requests) from the business agent. In particular, the agent helps the client work up a business proposal, helps him or her understand what credit is, and shows how the client can use it to run the business more effectively. Third is the Start Your Own Business (SYOB) program, which identifies, screens, and trains potential entrepreneurs in the elements of starting and running one's own business.

Credit is made available to VOs through the participating PVOs. Loan repayments (including interest) flow back through the PVO component to the project for subsequent relending to VOs -- through current or newly participating PVOs. Credit is offered directly to qualifying, already operating, small-scale enterprises by the SSE component and its six business agents. Credit reflows are then recycled out to current and newly qualifying small-scale enterprises.

RATIONALE

The program goal, as stated in the logical framework, is "to progressively decontrol and commercialize rural production in the Sine-Saloum." The project fits the GOS strategy of government disengagement from activities that the private sector is felt to be better qualified to carry out. It responds to the GOS Economic Reform Plan of reducing the role of parastatal rural development agencies (RDAs) and giving more autonomy to local producer groups. It does this by providing alternative private means (PVOs) of reaching and strengthening local groups (VOs) with goods and services. The SSE component also supports the GOS strategy by helping small-scale enterprises increase their production of goods and services on their own. Much of the small-scale enterprise production of goods and services is directly or indirectly linked to village-level agricultural production.

The project is consistent with the USAID strategy of helping Senegal achieve food self-sufficiency by the year 2000. Both VOs and small-scale enterprises, with project assistance, will increase on- and off-farm production. As the project helps expand village-level agricultural production and incomes, demand for entrepreneur-supplied goods and services will increase. Conversely, as the entrepreneurs increase in scale and scope of activities, their demand for farm products (for consumption, processing, and marketing) will rise.

The first hypothesis that this experimental project tests is that PVOs can be more efficient, more flexible, and less costly providers of goods and services to farmers than can government entities. If the hypothesis is correct, it becomes important to determine whether this project can be replicated elsewhere in Senegal and in other Sahelian countries.

The second hypothesis being tested is that small-scale entrepreneurs, through provision of credit and training, can be made sufficiently profitable and financially strong enough to permit them to be viable business borrowers from the Senegalese banking system.

PROJECT HISTORY

Development of the Project

The following is the chronology of the development of the C&ED project:

1979:	Concept of PVOs and SSEs as means of reaching farmers with goods and services
Late 1982:	PVO and SSE themes combined into one project
December 13, 1982:	Project Identification Document (PID) submitted
May 2, 1983:	Revised PID submitted
May 26, 1983:	Revised PID approved

September 6, 1983:	Project Paper (PP) authorized
January 4, 1984:	Project Agreement (Pro-Ag) signed
August 2, 1985:	Cooperative Agreement with New Transcentury Foundation (NTF) signed
September 1985:	First NTF team members in country
April 1986:	MU strategy plans approved
October 1986:	First loans/grants made
November 1986:	Project assistance completion date (PACD) extended from September 30, 1989 to June 30, 1990
May 28, 1987:	To date four PVOs approved; 95 SSE loans approved; credit reflows starting; training underway; SYOB started -- two business starts and six business proposals presented

Implementation of the Project

The project's administrative and logistical start-up activities took place from September 1985 until April 1986. Two additional factors increased the delay in implementation. First, the NTF team felt it necessary to revise the project strategies in light of the significant amount of time that had passed since the entire approval and signature process was completed. The NTF team therefore developed new strategic plans for all the project components. These strategies were reviewed and approved by USAID and by the National Project Committee (NPC) during March and April 1986. Between April and September 1986, the Management Unit (MU) hired, trained, and placed its business agents, and conducted seminars and training sessions for potential PVO grantees. Second, the first chief of party departed in June 1986, replaced in mid-July by a new chief of party, and the subsequent departure of the project credit advisor led to further delays.

Not until October 1986 was the first PVO grant approved and the first loans to small entrepreneurs made. During January-March 1987, three more PVO grants were approved. Currently, six additional PVOs are tentatively slated for consideration at the June 1987 meeting of the NPC. On the SSE side, 95 loans have been approved since October 1986.

Only one PVO, CARITAS/Mbour, is fully operational as a project grantee. It works with four VOs in the Fatick region. The other three approved PVOs have yet to become fully operational. Concerning credit, some reflows from the CARITAS VOs have already been registered, as have reflows, full or partial, from loans to the entrepreneurs funded under the SSE component.

Training seminars in organization, management, finance, and credit for PVOs have taken place. The business advisors of the SSE component have been trained, and one full training session of the SYOB program has been held.

The MU is considering changes it may wish to make in the project design to increase the prospects of achieving the project's purpose. Since the project was delayed in its start-up and is still in the early stages of implementation, and since project management is thinking about redesigning parts of the project, this evaluation will examine implementation to date, the redesign proposal (Direct Assistance Program [DAP]), and the basic hypotheses underpinning this project.

CHAPTER TWO

LOGICAL FRAMEWORK

SSE COMPONENT

Original Goals, Assumptions, and Expected Outputs

The project's SSE component has a dual purpose: to assist SSEs to be capable of managing their own, self-sustainable growth; and to leave behind an institution that can provide similar assistance to other SSEs in the region. Specifically, the project aims at providing training and credit services to 675 SSEs to strengthen and enable them to increase production of agriculture-related goods and services.

At the end of the project, 70 percent of the participating SSEs are expected to have reimbursed their loans, and 50 percent should be able to move into the formal banking and credit sector to receive additional loans. Strengthening and increasing the activities of these SSEs would lead to increased agricultural production.

Critical assumptions for reaching these goals are that:

- Senegalese institutions "develop to the point that institutionalization of SSE assistance is possible";
- Credit institutions in Sine Saloum are capable of meeting SSE needs;
- Goods and services produced correspond to agricultural production needs; and
- Credit and technical assistance will combine to increase output for participating SSEs.

Implementation of the SSE component has had two distinct phases to date: 1) research and strategy elaboration; and 2) creation and development of the Small Business Advisory Unit (SBAU) and distribution of loans from the revolving credit fund. The institutionalization phase of the project, not yet begun, will prepare it for integration into an ongoing institution. The identification of a possible "parent institution" and delimitation of specific requirements have not begun, but some initial contacts have been made and the SBAU is preparing for integration in the design of its systems and its structure.

Strategy Elaboration

Progress to Date

The MU:

- Conducted a month-long rapid reconnaissance survey of small-scale enterprises to identify characteristics and critical needs;
- Conducted a week-long survey on aspects of SSE credit use and access;
- Developed a strategy focusing on creating a self-sustaining SBAU and delivering credit to SSEs at a 24 percent interest rate; and
- Conducted a second, more in-depth, survey of 500 SSEs to serve as baseline data for control purposes and strategy re-elaboration, if necessary.

Findings

There has been a modification to the original strategy of the SSE component. The PP called for a program to be implemented by a SBAU to provide credit and training to strengthen a representative sample of agriculture-related SSEs. The SBAU would work closely with the individual enterprise owners to design and administer a business improvement plan based on the entrepreneur's aspirations. The level of assistance provided would be based on the entrepreneur's ability to absorb it. The assistance would include everything from credit to functional literacy and numeracy, as deemed necessary.

Rapid reconnaissance surveys by the SSE advisor revealed that credit was the single greatest constraint to the development and strengthening of small enterprises. Therefore, the use of the credit fund was selected as the foundation of the strategy and the principal tool of the SBAU to work with entrepreneurs. The SBAU functions like a rural bank, lending to sound customers with well-conceived projects but with no access to formal credit. The major change was to concentrate on the lending and repayment of loans, and not to emphasize the design and administration of a business improvement plan based on the entrepreneur's aspirations.

The selection of the 24 percent interest rate was based on the expected high cost of lending to SSEs. Twenty-four percent is the legal maximum a financial institution can charge in Senegal, and it was felt that this amount would be the minimum required to become self-sustaining. No calculation of the actual cost of delivering credit to the target SSEs, providing for defaults and profits, was involved in the selection of this rate. The 24 percent interest rate is substantially below the informal market rates, ranging from 50 to 500 percent, the only credit that the target group can normally access.

The selection of the 24 percent interest rate, calculated digressively, is 10.5 percentage points higher than the legal maximum banks can charge (established by the Union Monétaire Ouest Africaine [UMOA]). This means that the interest rate to the SSEs is not subsidized, as is often the case in SSE credit projects. SSEs, however, pay a surcharge to cover the real costs of delivering credit. This factor will make the SSEs even stronger in the long run, as they will respond to the real cost of capital.

The actual interest received on a one-year, diminishing balance loan is 13.4 percent of the original principal amount, not 24 percent of the principal. The strategy calculations predicted interest revenue of 24 percent of the full amount lent, and did not consider that interest paid on a diminishing balance is actually less. Similarly, commercial banks also charge interest for short-term loans on a digressive basis. A 13.5 percent interest rate actually yields the bank about 8 percent of the initial principal amount in interest.

An important element of the strategy lies in the careful selection of the enterprises and entrepreneurs to receive loans. The strategy focuses on functioning enterprises in which the entrepreneur has proven his or her natural ability, rather than on the existence of the appropriate accounting and management systems, which banks require. The project calls this a minimalist strategy.

In addition to credit, those entrepreneurs presenting sound requests can receive informal technical assistance from the SBAU. This consists of analyzing their current situation and the necessary steps to be taken to make the projects viable. However, the role of training is far less important than originally conceived in the PP.

Conclusions

The credit fund will attempt to become self-financing by the end of the project. Rather than using the reflows from the credit subcomponent to pay for the final year of the contractor's services, the entire credit fund should be lent to SSEs. Moreover, the credit fund will need additional capital.

The project has laid a solid foundation for reaching self-sustainability, but more by a gut feeling than by actual calculations. The MU has not fully defined what will be necessary for the SBAU to reach self-sustainability: the number of loans to be made, the amount of capital it will require, or the average size of each loan. To make this determination, the MU must understand the implications of a credit program, the real return on investment, and the actual costs of delivering the credit.

Under the current strategy, the SSE component will have to reach more than the targeted 675 enterprises to reach self-sustainability.

Recommendation

Involve the financial management advisor in the review of SSE strategy changes. He has a strong banking background and should be involved to ensure that changes in credit and interest strategy are properly thought through and that their real impacts are properly assessed.

SBAU and the Revolving Credit Fund

To date, the SBAU has made 80 loans, totaling more than 106 million CFA ($350,000). Taking into consideration that it is still early in the implementation stage, there have been no defaults and only four cases of late payments. More than 40 million CFA have been reimbursed, including 10 complete repayments. The overdue loan payments total 1.7 million CFA and represent only 2.41 percent of the total portfolio outstanding. The project is charging 24 percent interest, 10.5 percentage points above the formal lending rate. Despite this real rate of unsubsidized interest, the businesses receiving credit are being visibly strengthened: earnings are being reinvested in the businesses, and the volume of business carried out is increasing. This is encouraging for the future of the project. However, the SSE component is not yet financially viable. It still loses money and has a long way to go before it reaches a profitable stage and can be institutionalized. The remainder of this section will identify the strengths and weaknesses of the component and highlight those areas in need of improvement.

Progress to Date

- Hired and trained six field advisors. One has been fired, five remain;
- Created zones for all six advisors in Kaolack North, Kaolack South, Fatick, Sokone, Kaffrine, and Koungheul. Opened and equipped offices in each zone;
- Hired and trained a credit specialist and a SSE counterpart;
- Established a Credit Committee, which has met on a monthly basis since September 1986 to evaluate loan requests;

- Developed and applied an incentive system to motivate advisors in their performance while stressing loan repayment;

- Established criteria for loan eligibility specifically designed to reach the target group;

- Developed systems for screening loan applications, analyzing and evaluating loan requests, monitoring loan repayments, and collecting loans;

- Developed systems for monitoring the activities of advisors, responding to their needs, and evaluating their performance;

- Approved and disbursed 80 loans by May 15, 1987, totaling 106 million CFA ($350,000), and approved 15 more loans on May 19 (not yet disbursed). Loans included 72 loans to men and eight loans to women (see Appendix 10 for more information on characteristics);

- Collected repayments totaling 40.4 million CFA, including 12 complete loan repayments. No defaults, to date, but four loans have overdue payments, totalling 1.7 million CFA; and

- Provided continued advisory services to SSEs in the zones, improving the skills of the small entrepreneurs by helping them to strengthen their enterprises through sound business practices.

The progress to date is impressive, particularly on the loan repayment rate and the impact the loans have on the small businesses receiving them. This is due in large part to the early success of the SBAU in meeting the entrepreneurs, learning their businesses, elaborating sound projects, and providing good follow-up.

Composition of the SBAU

Findings

The project used a thorough process to select the advisors, involving written tests and interviews. Of the six advisors selected, four had worked for the project on the surveys and two were new. All advisors had prior work experience in areas related to the project, preparing them for the role. Despite this screening, one advisor has been fired.

The advisors have received significant training from the SSE specialist, both before being placed in the field and through ongoing work during the monthly meetings and on field visits. The advisors can complete the bulk of the loan analyses on their own, but are not yet ready to perform their required tasks. Despite the training received to date, levels of advisor technical competence are still below a level required to make sound, unassisted, business judgments and properly analyze all loans.

The advisors are well integrated into their zones and have succeeded in establishing contact with small businesses in the rural areas. Each advisor had talked with more than 700 individuals about the program and had visited many enterprises in his zone. The advisors have established sound working relationships with their client firms as well as with other firms to which they have not made any loans. As a result, the entrepreneurs often look to the advisors for advice.

The zones selected for the advisors are the principal economic centers of the Sine Saloum region. As such they provide access to the most dynamic markets, where most small entrepreneurs are located. Each advisor has an area small enough to cover, but large enough, it is hoped, to provide sufficient viable business opportunities to justify his or her presence (that is, cover his costs). The zones have been well selected to provide blanket coverage of the region; however, the outlying zones have not yet demonstrated whether they can be financially viable, given the current, restricted, target group.

The management of the SBAU plays an active role in monitoring the analysis of loan dossiers and is responsible for approving all loans. This activity has been instrumental in the success of the credit activity thus far, including the very low default rate.

However, the SBAU is extremely top heavy. Although it has been successful in implementing the credit fund operations, it has two senior managers, a secretary, a chauffeur, and vehicles. The cost of managing the advisors is twice as expensive as their salaries.

The credit advisor spends time on tasks that should eventually be assigned to a lower paid person. These tasks include routine correspondence to borrowers, trips to banks, and visits to the field to verify the quality of collateral.

Conclusion

The presence of the advisor is critical to reach the small businesses and to perform the groundwork necessary to prepare sound loan appraisals. When an advisor is absent from his zone, the zone loses access to the project and the project loses access to its target group and to revenue-generating activities. Since the presence (and the actual number) of advisors in the field is so important, the project cannot succeed if these elements are missing or unproductive for long periods of time. Therefore the project must be able to anticipate the loss of an advisor and replace him quickly.

The time required to select, train, and develop a new advisor is about one year. The current advisors have been in the field for over a year and are just reaching the level they will need to be effective. This factor must be considered in staffing patterns for the future. With one advisor already fired, and the need for an extra advisor in Kaolack, the project must plan ahead six months to a year in recruiting and training advisors.

The advisors need further formal training in basic accounting skills and review of use of project documentation. Although they have made significant progress, their level is not yet sufficient to operate with a minimum amount of supervision by the MU.

The SBAU should ideally have only one supervisor/manager to review the loan appraisals, meet with the entrepreneurs, and verify guarantees. At present it needs the large existing structure to monitor and perfect project systems. When the unit is integrated into an established institution, it should need only one loan supervisor (the SSE specialist). The rest of the services will be provided by regular bank staff.

Increasing the number of advisors in the unit will lead to a lower average overhead cost per advisor (lowering the number of loans they must make to break even). But there must be a minimum level of demand before extra advisors can be added. Demand for credit is greatest in Kaolack, and only that region could now support another advisor.

Recommendations

Hire two new advisors now, one to replace the fired advisor and another to be placed in Kaolack. An attempt should be made to try to recruit a qualified woman to serve in Kaolack, to help work with the many women's activities there. If one cannot be found, however, it should not be required.

Begin, now, a second round of formal training for advisors on the basic skills required to perform their jobs efficiently and effectively to require the least amount of supervision from the MU. This training includes market analysis and basic financial accounting.

Progressively delegate more responsibility to the advisors, when they are properly trained, for routine activities such as guarantee verification. This will free time for management to focus on more important issues, and to eventually decrease its staff to one specialist by the PACD.

Management and Administrative Systems

Findings

Advisors follow a sound set of systems designed by the project to analyze and evaluate the loan requests. These systems have been modified several times to respond better to the environments the project faces. In addition, new systems are being designed as the need arises.

A successful system has been put in place for loan collections made in the field. This system involves a dual signature deposit arrangement into a safe that only the credit advisor can access. This makes it safe, easy, and less costly for the entrepreneurs to work with the SBAU.

The formal, computerized systems at the MU for monitoring the disbursement of the credit fund do not respond to the needs of the credit unit in the SBAU. The credit specialist is required to maintain an additional set of hand-kept records because of errors in the computer programs. Information that should be retrievable in the database system cannot be called up, requiring sorting to be done by hand.

The SBAU does not have a computer in its offices and rarely ever uses one. The SBAU does not know how to use spreadsheets to build models that would enhance decisionmaking capacity. The financial management specialist is knowledgeable about the use of spreadsheets and is available to work with the SBAU.

Conclusion

Greater reliance must be placed on the computer system to run the revolving loan fund efficiently. The system can be used for routine activities, such as the form letters to borrowers, but its real advantage is in its more complex modeling capacities to determine the potential impact of future decisions.

Recommendations

Involve the financial management specialist in the SSE component of the project to adapt the computerized systems to meet its needs. He has the necessary computer skills to be a valuable asset to the project. He could work with the SSE specialist to create financial models relevant to the decisions that the project must make in the future.

Train the credit and SSE specialists to use Lotus 123 so that they can continue to innovate on their systems.

Loan Appraisal

Findings

The advisors use the system prescribed by the MU to analyze, evaluate, and present loan appraisals to the Credit Committee. The use of the forms gives them a clear, coherent format to follow and ensures that they cover all the required elements. Close examination, however, reveals that some advisors do not fully understand the uses of the forms and the linkages among the balance sheet, income statement, and cash-flow analysis.

The advisors focus primarily on the financial viability of the individual projects and devote less attention to the developmental impact on the business. Risks are not always identified and market studies often not verified, relying on the word of the entrepreneur. The review of each appraisal and visit to the entrepreneur by the SSE specialist often identifies missing information that is needed to complete the loan appraisal.

Only 48 percent of prepared proposals were funded. To date, the five advisors have prepared and sent 174 appraisals to the Credit Committee. After review by the SSE specialist, only 131 of them were presented to the committee for review. The other 43 were disallowed for lack of an appropriate guarantee, for insufficient information, for being an inappropriate activity to fund, or for being unviable. Of the 131 appraisals presented to the committee, only 79 were approved and three of those were subsequently lost for technical reasons (guarantees).

The average loan appraisal requires four to five days of the advisor's time to prepare plus about one-half day of management time. This amount of time is high for a banking institution.

Conclusions

The SSE and credit specialists play a critical role monitoring and eliminating weak loan requests. The thinning process from loan appraisal to loan approval demonstrates the critical role of close follow-up by technically competent managers. This follow-up may be largely responsible for the initial high repayment rate, with only 2.4 percent of the loan portfolio in overdue loans. This can only be verified over time.

The inability of the SSE specialist to visit all the proposed projects could constrain the growth of the portfolio. Close follow-up means that the SSE specialist already visits 20-25 entrepreneurs per month to review and evaluate their projects. As the number of loan appraisals per advisor increases, the supervision burden will also increase for the SSE specialist.

The advisors lose time preparing unfundable appraisals. At present, an advisor can prepare and present up to only five dossiers per month, of which maybe three or four will be approved. This average should improve with time, as the advisors master their jobs and get more repeat customers, who take less time to process. To become profitable, the SBAU must process more loans to gain economies of scale. If the advisors do not increase their ability to process loans, the time they spend will constrain the growth and profitability of the portfolio.

In general, the advisors do not grasp the elements of a market study, witnessed by the difficulty they have in understanding the requirements of their own market: the potential clients to whom they can lend.

Recommendation

The SSE specialist should review all elements on the appraisal forms with the advisors to ensure that they understand them. This review will make the advisors more efficient in identifying viable projects and waste less time preparing weak appraisals. Supplemental training in market analysis will also lead to stronger appraisals, as will repeat training in accounting and finance.

Incentive Program

Findings

The incentive program is a tremendous success with the advisors. It is based on a bonus for all successful loans made (ones that are repaid) and a substantially larger penalty for each loan not repaid. The program provides the advisors with the extra incentive to increase the number of loans processed, while forcing them to ensure that the loans are of sound quality. The goal of the program is to achieve a 95 percent repayment rate. The system, however, is expensive. At present, the advisors receive a bonus of 3 percent of all principal and interest repaid to the project. This effectively becomes 3.4 percent of the total principal lent and successfully repaid. Because the actual interest received on loans equals only about 13.4 percent of the principal amount, the project is paying 25 percent of its total earnings to the advisors in bonuses. In contrast, the penalty for a non-performing loan is 27 percent of the amount not reimbursed.

The bonus system is for the advisors to ensure high repayment rates. But a critical element of the success of the SBAU to date rests with the supervisors and the intense follow-up that they have provided to the advisors and the clients. The bonus system does not include SBAU management.

Conclusions

The bonus system has been successful in motivating the advisors, but it has not been fully thought through. It is a very heavy cost to the project, it does not respond to all the goals of the project, all of the implications have not been thought through, and it does not include the supervisory staff. The advisors are not encouraged to find new borrowers once they have built up a steady clientele, to focus on specific target group members, or to reach the minimum number of loans for an advisor to be profitable to the unit.

No firm structure to the bonus system has been defined or put in place. An issue such as bonus payments, or penalties, to advisors who leave the project have not been resolved. The management has kept the system flexible, not actually committing to any one rate, but the advisors think it is already set. Moreover, the Senegalese supervisors who are excluded from the bonus system do not have the financial incentive to provide the necessary support to the advisors.

Recommendations

Change the incentive program to reflect the profitability of each advisor to the project. Include supervisors in the incentive program and set a ceiling of 25 percent of project earnings to cover all bonuses.

The bonus system should be designed to consider the other project targets besides the repayment rate. The bonus system should include the following criteria:

- Minimum number of loans made and average loan size;
- Number of new clients;
- Allowance for supervisors;
- Limited bonuses on second loans to entrepreneurs (second-time loans could receive a lower percentage);
- Emphasis on target clients and getting them to use internal record systems (required by banks); and
- Compensation for the varying levels of demand in the different zones by increasing bonus levels for underprivileged areas.

This system may be more complex to establish and monitor, but it should lead to better overall project performance.

Credit Committee

Findings

The Credit Committee officially comprises the SSE and the credit specialists in the SBAU. The committee hears all formal loan presentations by the advisors, reviews appraisals, and approves or rejects all loans. Decisions are made by consensus. If any one of the three on the committee is opposed, the loan is not approved until the problem is resolved. To date, all cases have received a personal visit from at least one member of the Credit Committee to verify the project and the accuracy of the appraisal preparation.

The committee is missing a key element required to maintain a low default rate: sound local knowledge of the Kaolack region and of the Senegalese political, legal structure, and technical expertise in agriculture, the area on which the project focuses.

Also, no member of the committee has ever served on a bank Credit Committee before.

Conclusion

The Credit Committee has done an excellent job to date, given the expertise of its personnel. To maintain its low default rate, the committee will need to add expertise in those areas in which it is weak.

Recommendations

Invite the new regional director of the Caisse Nationale de Crédit Agricole au Sénégal (CNCAS) to sit on the Credit Committee. The CNCAS will open up a branch in Kaolack in June, and the director could provide formal banking expertise as well as gain an understanding of how the project is being successfully managed.

Train the credit specialist (who verifies all loan guarantees) further in the laws governing legal accountability and the fiscal powers of local authorities for committing the government funds to cover repayments.

Loan Criteria and the Portfolio

Loan requests must meet the following criteria to become eligible for loans:

- The enterprise must be ongoing;
- The entrepreneur should not be able to get a loan from the bank;
- The entrepreneur must make a financial contribution to the project;
- There must be a specific project to be funded;
- A secure guarantee must be provided;
- The loan request must be under 3 million CFA and shorter than one year;
- The project must be financially viable; and
- The project must lead to a lasting, beneficial impact on the enterprise.

How are these being respected, and what is their impact on reaching the goals of strengthening firms as well as self-sustainability of the SBAU? (See Appendix 9 for a discussion of profitability and the portfolio.)

Findings

The project finances activities in which the entrepreneur has experience, such as agricultural production and livestock fattening, but where no ongoing operation exists.

The project has made loans to several entrepreneurs who have either received bank loans in the past or have them now. These entrepreneurs come to the project because it can meet secondary requirements of the loan, which banks could not, regarding service, timely delivery of the loan, or simply being able to grant the loan.

The project requires the same basic guarantees as do local banks, but is more flexible in trying to find innovative, lower cost solutions for the borrower. The project does not require guarantees to be notarized, lowering the cost to the borrower but raising legal risks for the project. This has been very effective so far, and the project has lost only two approved loans because of a lack of a guarantee. The guarantee is a critical element in getting repaid and in preparing for the future institutionalization of the SBAU.

The 12-month and 3 million CFA limits have excluded many potential target group borrowers. These borrowers may need more than 3 million CFA or have productive investments that may require more than 12 months to repay. The small average loan size (1.3 million CFA) is a direct reflection of this limit.

Five borrowers have returned to the project for a second loan after paying back the first one. Although there have been beneficial impacts on their enterprises resulting from the loans, they are still too far away from formal banking criteria to qualify. It is doubtful if a large number of enterprises that receive loans and pay them off will be ready to use formal lending institutions by the end of the project.

The project requires that most loans lead to a 100 percent return on investment (ROI) as a goal. This hurdle rate is to ensure financial viability and allows enough leeway for the borrower to repay the loan even if he or she makes only 50 percent of the expected profits.

The average number of loans per advisor to date is 19 over nine months, or an annual average of 24.

Advisors are communicating the advantages of early repayment to the borrowers in view of strengthening the firms. This is not to the advantage of the advisor, under the bonus system, but is sound policy for the borrowers.

The SBAU will have lost 17 million CFA during this first year of operations to bring credit to the entrepreneurs, despite no defaults.

The impact criteria have been well respected by the Credit Committee. The 100 percent ROI requirement strengthens the borrowing enterprise, because the profits are being reinvested in the operation. Four examples of the positive impact the loans have had, from entrepreneurs who have fully paid off their loans are:

- One metalworker borrowed 500,000 CFA to increase his working capital to allow him to make and sell more electric millet grinders. He repaid the loan in two months, clearing more than 600,000 CFA in profits. He has reinvested that money in the electric grinder operation and has returned for a second loan of 1.5 million CFA to begin manufacturing a diesel motor-powered grinder for use in rural areas;

- A bulk agricultural produce merchant paid off his loan and used the return from his investment to open the first local dealership for plow parts, on which he now has exclusive license;

- A small merchant borrowed 500,000 CFA to increase his inventory of goods, repaid the loan early, increased his inventory by 500,000 CFA and wants to borrow more to start buying and selling agricultural produce; and

- A civil servant preparing for his retirement with a livestock-fattening operation did not make his expected return on a 2.8 million CFA loan for five months, but still earned 225,000 CFA, for a 20 percent return on the loan, which he reinvested in the infrastructure of his farm.

The bank requirement to have regular record-keeping systems is missing from the list of criteria. Most small enterprises coming to the project do not have any formal accounting systems, nor are they interested in the formal training required to institute them. The fact that fewer than 5 percent of the borrowers have formal systems has not affected the ability of the entrepreneurs to repay their loans. Banks, however, require an accounting system, albeit rudimentary. (See Appendix 8 for further discussion of the issue.)

Conclusions

The loan criteria of the SSE component have led to a successful first year with loan repayments. The low ceiling on loans and the one-year limit have ensured that the entrepreneurs do not get overextended and can repay. These two elements, however, restrict the profitability of the SBAU.

The guarantee procedure implemented has been suitably adapted to the target group. The project requires the same guarantees as the banks, but does not require that they be notarized. This heavy up-front investment for an entrepreneur often serves as a barrier to entry to the credit market.

The project has a significant impact on strengthening the firms to which it has made loans. This derives from the impact of credit and reinvestment of profits rather than from improved managerial systems.

The lack of formal training is compensated for by the informal advice being provided by the advisor. Instead of requiring the existence of the record system, the loan advisor helps the prospective borrower identify his or her resources and works with the client to establish the specific needs of the project and its repayment schedule. This close counseling provides informal training, while sensitizing the clients to the realities of the repayment schedule.

The SBAU focuses on loan appraisal preparation, approval, and monitoring. It has made a decision not to involve itself in formal training of entrepreneurs. This strategy allows it to apply it resources to those entrepreneurs who have the best chance of succeeding. The SBAU does not now have the resources to begin formal training of the small entrepreneurs, even if they want it.

Increasing the volume of activity to reach a profitable level will require an influx of capital. The cash-flow calculations showing the source (original $450,000 or 135 million CFA plus interest reflows) of funds and the use (increasing the amount of loans outstanding) of funds (in Appendix 11) point to the upcoming shortfall in capital to be lent, 25 million CFA by June 1989 and 104 million CFA by the end of the project. These figures are based on reaching break-even in June 1989 and profitability in 1990. Should these goals be delayed, the needs for funds will be lower.

Recommendations

Keep the average loan length short, near the current average of nine months. Some loans of duration longer than one year can be made if for a specific productive investment, but in general loans over one year should be avoided. Longer term loans are far riskier than short-term loans and require a different set of analytical tools to be developed.

Raise the loan ceiling from 3 million CFA to 6 million CFA. This will allow the size of the average loan to grow to about 1.8 million CFA.

Continue the rest of the SBAU's current loan analysis policies. They work well, and defaults must be kept below 5 percent for the project to become self-sustainable.

Double the number of loans per advisor to 40 per year by June 1988, and increase them again to 55 per year by June 1989. This growth will allow the project to reach a break-even point by June 1989, one year before PACD.

Maintain the interest rate at 24 percent. It should not be lowered but, if possible, raised by one percentage point or two to ensure profitability.

USAID should approve a transfer of 104 million CFA from the unexpended PVO grant fund to the SSE revolving credit fund. This will provide the funds necessary to reach a profitable state.

Target Group of Clients and Demand for Credit

A critical assumption being made by the project, but which was not expressed in the PP, is that the target group represents a market with sufficient demand for credit to produce up to 65 viable, fundable projects per advisor each year. The target group in the PP (see Appendix 6) is limited to firms related to agricultural production. The project has already expanded the group to include other firms in indirectly related areas (see Appendix 7) because they met the other very restrictive conditions of the loan criteria imposed by the project. Is the current market large enough to allow the project to become self-sustainable? Do the advisors have the capabilities and means to reach that market? If not, what actions should be taken to expand the target group?

Findings

Each advisor has been visited by more than 700 different individuals interested in receiving loans. Many do not have ongoing enterprises or fundable projects.

The advisors in Kaolack and Fatick have well over 1,000 enterprises in their zones that do not receive bank funding.

A maximum of 500-600 enterprises of all sizes are in each zone outside of Kaolack and Fatick.

The advisors believe they can easily reach 25 loans per year. Two advisors in outlying zones had at least 15 fundable project proposals on their desks, waiting for further information. The advisor for Kaolack North had about 40 fundable projects on his desk.

The advisors have been instructed to respond to proposals sent to them rather than trying to generate demand. Following the initial marketing and publicity campaign, it was felt that all entrepreneurs with viable projects would come forward of their own free will.

Three of the five advisors have little idea about how to market their services to generate increased demand from the target group.

Since the first months of the project, the SSE specialist has not been involved in marketing the project and trying to identify new clients for the advisors.

The advisors are limited in their ability to access the more rural parts of their zones because of the time required to reach them and lack of transportation.

There is a large demand for credit at 24 percent in all zones from firms with viable projects that do not now have access to formal credit. Banks are unwilling to lend to many of these firms because of the risk, cost of lending, and lack of management systems. Many of the firms are unwilling to go to the banks because of ignorance, fear, or the initial expenses involved (see Appendix 8 for analysis of why banks do not lend and entrepreneurs will not go to banks). Many of these firms do not fall within the target group or do not meet the project's restrictive lending criteria.

Many entrepreneurs do not realize the benefits credit can bring. Two borrowers, among those interviewed, said they had not wanted to take a loan. It was only through the advisor's efforts that they were able to see the benefits credit could provide. They took the loans on a trial basis. One has repaid and taken out a second loan, and the other is on time with his payments. Both are pleased with the benefits they have received from the credit.

Conclusions

The demand for credit among the target group, at present, is not large enough to produce 55 loans per advisor each year. The demand for credit in Kaolack itself is great enough to provide enough clients to cover the costs of delivering credit to those entrepreneurs in the target group. But in the outlying zones (Sokone, Koungheul, and Kaffrine), there are a smaller number of firms from which to draw. In addition, those in the target group are small and will request smaller loans.

There is untapped demand among the target group. This demand can be reached if the advisors have better training in marketing the project's services and if their means of travel are improved. However, even with the increase in demand from the target group, there will be insufficient overall demand considering the restrictive criteria the project imposes on reinvestment in the firm.

Loosening the restrictions on fundable projects and increasing the ceiling on loans will increase project effectiveness in reaching the target group. Increasing the number of overall loans and raising the average loan size will provide the economies of scale necessary to become profitable. With these larger, more profitable loans, the SBAU will be able to afford to make loans to the target group. Therefore, extending loans to these non-target enterprises, even though they are still small and unbankable, will effectively subsidize the smaller, less economic loans to the target group.

Loosening the restrictions will not lead to subsidized loans to non-target firms. The 24 percent interest rate is 10.5 percentage points above the formal bank rate. This differential ensures that most firms requesting credit will not have access to bank loans, or they would use them. Any firm that approaches the project for a loan must still meet the other criteria, thus ensuring that the loan is financially viable. These firms will therefore contribute to the profitability of the SBAU.

Firms that can profitably use money at a 24 percent interest rate, but that cannot get access to the credit, lose opportunities to stimulate the local economy and provide additional services to the community. Therefore, lending to those firms falling outside the defined target group will have an impact on overall economic activity resulting in greater development of the target group.

Recommendations

Entertain loan requests from firms that do not fall directly within the target group or that may not meet the enterprise development criteria being imposed by the project. These loans should always come in second priority to firms in the target group or other firms meeting the other loan criteria (particularly reinvestment in the firm). This priority should be structured into the bonus program.

The MU should help the advisors to identify new clients by:

- Establishing links with PVOs active in the region to have them identify good entrepreneurs; and
- Approaching large firms (for example, SONACOS, construction firms, and SONELEC) to identify their best suppliers for targeting by the advisors.

The SSE specialist should provide formal training to the advisors in marketing.

USAID should expedite the purchase of motorcycles for the advisors.

Institutionalization of the SSE Component

The demand for credit analysis delineates the possibilities for the SBAU in the future. The unit will have spent 600 million CFA developing the systems to tap into this market and to create the infrastructure necessary to exploit it. Considering the important overall economic developmental aspects of servicing this sector of the economy, long held stagnant for lack of credit, institutionalization of the credit fund can have an important impact.

Two critical assumptions made in the PP regarding the institutionalization of the project are that Senegalese institutions will be developed to the point at which the program can be institutionalized, and that credit institutions in Sine Saloum can meet SSE needs.

Findings

The main obstacle to institutionalization is finding a parent. A PVO, by Senegalese law, cannot be involved in any profit-making activities. The GOS will not create a new organization for it. Therefore, only the banking system is left.

The Senegalese banking system is rebuilding. The Banque Internationale pour l'Afrique Occidentale (BIAO) is illiquid, Société Générale de Banques au Sénégal (SGB) is cleaning up its portfolio, Union Sénégalaise de Banque pour le Commerce et l'Industrie (USB) has gotten the GOS to take charge of its bad debts, Société National de Banque (SONABANQUE) is reported to be losing money rapidly, and CNCAS is just getting off the ground with agricultural loans.

Profitability is a critical factor in getting any bank to be interested in taking over the credit fund.

The credit managers and directors of the banks in Dakar are ignorant about what the project is doing and how and why it is succeeding. They are closed minded especially because of the nearly bankrupt status of the Senegalese banking system.

It will be difficult to insert the project into any kind of already functioning banking system and maintain the autonomy and flexibility needed for it to succeed (including advisors in the field with a bonus system, 24 percent interest rate, and field-level decisions). Two institutions, however, were interested in the project because of synergies that they exist between the project and their operations, the SONABANQUE and the CNCAS.

The obstacle posed by the difference in interest rates banks charge -- 13.5 percent and the 24 percent that the project now charges -- can be overcome. The credit manager at the CNCAS suggested adding a 10.5 percent contract for services performed onto the 13.5 percent interest rate limit set by the UMOA. This is acceptable, considering the services the advisors provide in loan appraisal preparation and miscellaneous advice. This amount would be charged only to those whose loans are accepted, making it costless for potential borrowers to try for loans.

The CNCAS believes that it can create a positive synergy with the project in the domain of mobilizing rural savings, needed to lower its cost of capital. The advisors in the field will facilitate their collection job.

The CNCAS is experimenting at present. It has two other projects that work under its auspices, with salaries being paid by the projects but funds coming from, and risk absorbed by, the CNCAS. This approach brings flexibility into the management process of integrating the project into the CNCAS.

The CNCAS is willing to have its branch manager for Kaolack sit on the Credit Committee meetings to learn about the project and the way it functions.

Banks are unable to meet the needs of many small qualified borrowers. The project has made loans to several entrepreneurs who have either received bank loans in the past or have them now. These entrepreneurs came to the project because it is able to meet secondary requirements of the entrepreneurs that the banks cannot: service, timely delivery of the loan, or simply being able to grant the loan.

The CNCAS is willing to entertain a protocol to establish a link between the project and the CNCAS. This would specify the amount of participation required on either side at the beginning and the end of the project, as well as the specific conditions for incorporation.

The Central Bank is interested in promoting lending to small-scale enterprises. It is sponsoring a conference of West African banks to discuss the requirements of lending to small-scale enterprises.

Conclusions

The GOS institutions have not reached the point at which they can take on the SSE component of the project. Therefore the SSE credit program must be taken on by the private sector financial community.

The banking system cannot now provide services to SSEs, nor is it interested in trying except on the most restrictive terms, which few SSEs can fulfill.

The banking system can be more flexible than it first appears. If banks see the appeal of the project, they can find solutions to the dilemmas presented by its special requirements.

The banking system needs more information on the project to understand what it is doing, how it functions, and what synergies can be created between the project and the individual banks.

Increasing the volume of activity to reach a profitable level will require an influx of capital. The cash-flow calculations showing the source (original $450,000 or 135 million CFA plus interest reflows) of funds and the use (increasing the amount of loans outstanding) of funds in Appendix 11 point to the upcoming shortfall in capital to be lent, 25 million CFA by June 1989 and 104 million CFA by the end of the project. These are based on reaching break-even in June 1989 and profitability in 1990. Should these goals be delayed, the needs for funds will be lower.

Recommendations

The MU should invite SONABANQUE to visit the project and prepare a protocol for the CNCAS. The banks can test their options without making any commitments.

The SSE specialist should make a series of presentations to the banks to begin to educate them about the project and why it works. This should be a multi-year effort, with a presentation to the banking association this summer to inform its members about the current status of the project, with a follow-up one year from now to give them the progress report.

Encourage bank participation in the project through "selling" them blocks of the fund's best loans on a recourse basis. Under these conditions, the project takes on all the risk but gets the principal, and formal bank exposure, in return.

Prepare a balance sheet and an income statement for SBAU activities, on an annual basis, using a bank format. These will provide the financial institutions with an easily understood reference point.

Approach the specialist from the International Labour Organization preparing the conference on lending to small-scale enterprises and offer to make a case presentation. This will increase the visibility of the project to the banking community.

USAID should approve a transfer of 104 million CFA from the unexpended PVO grant fund to the SSE revolving credit fund to allow it to reach a profitable state.

Impediments to Business Development

Although the project is focusing on strengthening ongoing businesses, the issue of new business starts is important for stimulating the private sector. What are the most important obstacles to new business starts in the regions outside of Dakar?

Findings

For an entrepreneur to obtain the funds necessary to start a new enterprise from a bank requires that he or she already has an earning stream, has had an account with the bank for at least six months, and has access to collateral worth at least two times the amount of the loan. In addition to the rigid bank guarantees, requiring notarization, the banks require a 35 percent participation by the investor and a formal business plan. The latter is usually required to have been formulated by a *bureau d'études* and is very expensive.

Legally, a series of steps are to be taken for new business starts:

- Registering at the local level with the communal clerk;
- Registering with the Ministries of Commerce or Artisanat for permission to practice (this usually takes place at the national level); and
- Buying the license required to practice from the regional tax authorities.

The Chamber of Commerce is trying to organize a unit that will take care of all three of the elements simultaneously to make it easier for small businesses to register. The current system can be drawn out and often cannot be completed in a reasonable time frame unless the paths are greased.

Commercial businesses that will do more than 50 million CFA per year in sales must be able to keep accounts of their activities for tax purposes. Smaller firms are simply taxed on a fixed basis, negotiated with the local tax authorities.

There is no bankruptcy law in Senegal to protect lenders or investors in small enterprises.

The economic environment in the rural areas is not favorable to a significant expansion of businesses, but, as witnessed by the number of viable projects funded by the SBAU, there are many profitable ventures for small entrepreneurs to undertake. Lack of services and sources of inputs is a constraining factor to many enterprises, but provides the possibility for others to enter into the market.

Property laws make it difficult for a married woman to get a loan, because everything she could use as collateral legally belongs to her husband.

Conclusions

The process is not easy to get the necessary approvals to open a business. To meet the administrative requirements can take several months and side expenses.

Unless an entrepreneur already has the capacity to finance the start-up of an enterprise through family and friends, he or she will be unable to get bank financing. Access to credit appears to be the greatest constraint to the start-up of small businesses in Senegal.

The lack of legislation protecting investors from bankruptcy is a serious impediment to stimulating investment in new ventures.

PVO COMPONENT

The PVO component's purpose is to strengthen the managerial and financial capacities of PVOs so that they can train VOs to carry out beneficial development projects. Approximately 210 VO projects are expected to be implemented by PACD, receiving technical assistance from PVOs trained in project development, management, implementation, and credit administration.

Participating PVOs are to be managing projects and able to meet donor accountability requirements on their own by the end of project (EOP). VOs are to use credit in subprojects and repay loans, and the credit subcomponent is to be taken over by the CNCAS at the EOP.

Critical assumptions for meeting these goals are that:

- PVO technical assistance is sufficient to meet VO needs;
- Targeted activities correspond to VOs' economic and ecological needs;
- The MU targets PVO needs accurately;
- The GOS attitude toward PVOs allows for project implementation; and
- The CNCAS becomes functional by EOP.

Implementation of the PVO component is just starting. After a slow and somewhat problematic start, four PVO proposals have been approved by the NPC, and six more will be considered this month. One of the four approved PVOs has begun work with four VOs.

Grants

The PP anticipates working through 21-30 PVOs to provide assistance to 210 VO projects by PACD. An average VO was estimated to have about 20 people, including men and women.

Progress To Date

Forty-two VOs are being assisted, or very shortly will be, through the execution of programs by four PVOs.

Four PVOs have received grants. Three of these grants were disbursed during March and April 1987. CARITAS/Mbour received its grant in October 1986 and began project activities shortly thereafter. The PVOs receiving grants are:

PVO	Date	Amount	VOs
CARITAS/Mbour	October 1986	$237,000	4
PADEC	March 1987	$172,000	3
AFRICARE	April 1987	$645,000	15
OEF/MFR	April 1987	$400,000	20
		$1,454,000	42

Of the four grantees, only CARITAS/Mbour is implementing activities with its VOs. Its credit fund to finance production activities works well, and loans are reimbursed on time or early.

The three PVOs, whose grant applications were recently approved, plan to start most of their projects after the upcoming rainy season. Administrative delays in disbursement of funds have caused cattle- and sheep-fattening and market-gardening projects to be postponed until the next dry season.

Findings

Participation of PVOs

Participation of PVOs in the project has been lower than anticipated in the PP. PVO participation has been characterized by a mixture of interest, pessimism, distrust, philosophical differences, practical differences, proposal preparation, and proposal withdrawal.

In 1983, USAID sponsored workshops and conferences for PVOs in Senegal to critique and to participate in the project. Following project authorization, PVO participation was again solicited at a conference attended by 80 PVOs in 1985. AID invited 50 PVOs to a workshop in April 1986 to study the criteria for participation in the project with the MU staff. It was hoped that the workshop would spark interest and subsequent elaboration of PVO proposals. Only 15 PVOs attended, but the MU staff expected to receive proposals from them for review.

Twenty-nine PVOs have had contact with the project staff over the past year regarding possible collaboration (pre-proposals, proposals, correspondence, and attendance at project-sponsored workshops and seminars). Four have been funded, and six are awaiting action on their proposals. Of the 19 not participating, some do not have ongoing VO activities in the Kaolack/Fatick region and others lack expertise in agricultural production and credit.

Three PVOs (CARITAS/Kaolack, Office Africain de Développement et de Coopération [OFADEC], and the National Council for Negro Women [NCNW]) withdrew from the project after considerable investments of human and financial resources (field agents looking at project sites, preparation of proposals, adjustments of accounting methods to USAID guidelines, secretarial support, budget preparation, travel, etc). One PVO's proposal (RADI/Senegal) was never presented, and another's (AISA) was deferred until its accounting system meets USAID's accountability standards. AISA is one of the six PVOs awaiting approval at the July 1987 NPC meeting.

The withdrawal of CARITAS/Kaolack was particularly difficult for MU staff. It is the largest PVO operating in the Kaolack region, and one upon which the project hoped to depend for advice, assistance, imaginative ideas, and cooperation. CARITAS/Kaolack had three principal criticisms of the project:

- PVOs had no say in MU and NPC decisionmaking;
- The project did not leave much room for a PVO to choose and carry out its own projects according to its own criteria; and
- The project did not consider the implications for PVO-built infrastructure, and recurring costs post-PACD.

Project Rigidity

Many PVOs complain about the rigidity of the PVO component of the project, including:

- Internal management systems required of the PVOs before they can receive project funding;
- No per diem funds for Centre d'Expansion Rurale (CER) personnel;
- Many proposed projects are disallowed by MU staff;
- AID rules and regulations are overly complex;
- Projects offered are not those that villagers would normally select; and
- A requirement to work with CERs.

These felt rigidities vary by PVO, and are not homogeneous.

In contrast, the PVO component includes many requirements that are inherent to the success of a credit program:

- PVOs must have accounting systems and basic management skills necessary to account for funds lent, monitor repayments, and identify and transmit needed skills to the VOs;

- Proposed projects must be financially viable, that is, earn enough to repay the loan principal plus interest; and

- Projects must be group activities to benefit from the security generated by group involvement, necessary to ensure repayment without using formal guarantees.

Many complaints surrounding project rigidity stem from PVO administrative deficiencies or activities proposed for funding not being suitable for group credit. The PVOs may not have the systems necessary to manage a credit fund, individual members from recently organized VOs may want credit for their own personal projects, or a project may not be financially viable. The most common activities that are undertaken by VOs (market gardening and livestock fattening) do fall within the project guidelines stated above.

Composition of VOs

The composition of VO varies more widely than projected in the project design. The VOs range in size from 7 to 73 members. AFRICARE plans to assist 15 VOs including about 600 people. The Overseas Education Fund/Maisons Familiales Rurales (OEF/MFR) VOs vary in size from seven members, all men, to a group with 73 members of which 33 are women.

VO Sophistication

The VOs working with the four funded PVOs represent a wide range of organizational development. The CARITAS VOs have received training and technical assistance for years and represent well-trained, homogeneous organizations. MFR has been working with most of its VOs for several years, and is starting to develop strong VOs. AFRICARE and Pan Africain pour le Développement Communautaire (PADEC), however, work with VOs that did not exist before the project and have little group organization or cohesion.

The CARITAS project brought its technical, training, and management skills, ensuring that wells, pumps, and irrigation lines are in working order and maintained by a contractor who is supervised by the VOs. Moreover, these VOs have other social, educational, and religious affiliations with the CARITAS staff that reinforce mutual confidence and assistance. CARITAS/Mbour also cooperates with local government organizations and technical services, and is specific in delineating its relations with them. For example, CARITAS/Mbour defines which government services it will reimburse or pay for, and which it will not. In turn, the administrative authorities of Fatick appreciate and participate in the developmental activities of CARITAS in that zone.

Use of Grant Funds

Grant funds have been allocated for infrastructure development, PVO personnel, and operating costs required to manage the credit fund. One surprising finding was the large ratio of grant funds required to credit delivered, about 2:1. Appendix 13 shows the breakdown of approved PVO budgets.

More money has been required to establish the PVOs in the region than was expected. For OEF, 31 percent is required to start their operation in Kaolack, with 29.6 percent for PADEC and 28.5 percent for CARITAS. In addition, there is a 10 percent overhead charge for each PVO and charges for training of trainers, Dakar support, etc. Village training for all PVOs is below 10.5 percent of all budgets with credit accounting for another 22.5-33 percent.

Delays in Proposal Processing

In theory, the approval circuit should take 10 weeks. The approval circuit, however, depends on adequate proposal preparation. If one expands the circuit to include proposal preparation, the time to approval has ranged from four to 13 months. In addition, the process from initial submission of a preproposal to the MU to final proposal review at the NPC has not been as smooth as desired:

- Proposals presented often have to be rewritten in part or completely, sometimes several times over at MU insistence;
- PVO accounting and accountability systems often need verification and strengthening to meet AID accountability specifications;
- The initial steps for proposal approval, which consist of review by *arrondissement* and department authorities, is fast, usually only a few days at each level;
- A proposal can encounter delays at the regional (governor's) level as a result of the difficulty in getting the appropriate officials together at one time.
- In the case of international PVOs (IPVOs) and their local offices, there can be delays in proposal clearance by the home office and in negotiations; and
- Further delays can occur at the NPC level, if the NPC asks for additional information or if it gives conditional approval to a PVO to begin part of its project.

The four PVOs participating in the project have experienced delays in the processing of their proposals, in the review of their budgets and accounting systems, and in obtaining approval of final proposals. Two PVOs are experiencing delays in disbursements of operating and credit funds to finance training and production activities. These delays have caused the three PVOs' field staffs to lose credibility among the groups with which they work.

OEF's local offices and AFRICARE experienced delays as authorization for their activities had to come from their headquarters in Washington, D.C. Specific delays were encountered by AFRICARE over budgetary negotiations by its home office. OEF had delays over questions of control and disbursement of funds between its Washington office and the MU.

Operational Factors

The manager of the PVO component is the most visible individual involved with PVOs -- and thus most vulnerable to criticism. To a small PVO seeking project funds, the PVO manager is USAID: the instructions he gives to the PVO and the criteria he delineates for proposal acceptance represent the instructions and criteria of USAID. He adhered to the letter of the PP and insisted that it be respected by the PVOs and VOs. From the standpoint of some PVOs, the project's PVO component appeared to be bogged down in details -- for example, can budgeted expenses in one line item be shifted to another and in what proportion? Can a PVO without full legal status qualify for a grant? Can it be advanced funds for preparation of a proposal if it is not yet an officially sanctioned PVO?

The PVO component could have sought more flexibility in the criteria early in project implementation. It did not because of the limited experience of the PVO component manager in administering and implementing of PVO programs, and the limited guidance from the former chief of party. The PVO component has functioned more or less independently since its inception, and the original PVO specialist departed within two weeks of the project start-up. In addition, the first financial management/credit advisor refused to carry out credit tasks.

With the guidance now provided by the current chief of party and the team effort of the MU, the PVO staff has introduced flexibility in the application of VO project selection criteria to accommodate environmental limitations and economic and business considerations.

Conclusions

The configuration of VOs is different from that of the project design. The original projections were for a beneficiary population of 4,200 people distributed between 210 VO projects, and the VOs were to be serviced by 21-30 PVOs. It was assumed that the average PVO could service about 7-10 VOs. In reality, the PVOs service 3-20 VOs each, depending on the carrying capacity of the PVO. PADEC, a new and inexperienced PVO, has the smallest number of VOs.

Realistically, 70-100 VOs can be served by the project. Given the time remaining to PACD, the delays encountered in proposal preparation and approval, the funds remaining in the PVO grant activity, and the recommended strategy to work with fewer PVOs, the original target of 210 VOs is not realistic. Six to eight well-trained PVOs with adequate resources could manage this number of VOs.

The very nature of a credit program limits the range of activities that can be funded to those that are financially viable. Rejection of some traditional PVO projects (such as wells for drinking water) may be interpreted as rigidity, but actually responds to the financial viability of the project to be funded.

Some PVOs wish to include non-eligible activities in their list of projects (for example, NCNW and drinking water). When these are disallowed by the MU, the PVO withdraws. **If the PVOs actually had ongoing activities with VOs, credit funds would be applied to the appropriate activities and this would not create a problem.**

The rigidity in criteria application has been rectified. The project has introduced a degree of flexibility in application of the criteria -- with NPC approval. Some rainy season activities that extend well into the dry season have been approved, for example, the PADEC VOs may produce manioc on the grounds that harvest and marketing take place well into the dry season. The same approval will be sought for the six ASPR VOs (manioc) at the July 1987 meeting of the NPC.

Other rainy season activities may be approved, such as a PADEC VO that was approved to cultivate small areas of peanuts, millet, and cowpeas to ensure that it could repay its cattle-fattening operation. In addition, the by-products of these crops will be used as cattle feed. A well will be financed for vegetable gardening where no convenient water supply is available for growing the vegetables.

The PVOs, which have been conducting training with VOs during the period preceding funding of PVOs' proposals, are vulnerable to loss of credibility among their VOs when credit does not materialize on time. This loss of credibility is exacerbated by the imminent rainy season because during that time many planned credit activities cannot take place. This loss of credibility could have the opposite effect of the project intention of reinforcing PVO credibility and capacity to help VOs.

The PVO component gets more bogged down in details than the SSE component, which has the capacity and authority to implement its component quickly and efficiently. To many PVOs, the project does not appear to concentrate on the task at hand -- the transfer of resources from USAID to PVOs and VOs, so that they can assume responsibility for their own development.

Serious delays in the approval circuit arise because of:

- Poorly conceived, incomplete proposals that shuttle between the PVO and the MU for correction, and field verification of the appropriateness of the proposal;
- The verification and strengthening of PVO accountability systems; and
- Time-consuming IPVO home office-local office decisionmaking and negotiation processes.

Recommendations

PVO participation in the project should be redefined quantitatively and qualitatively sc that, by PACD, an accurate assessment can be made of the performance of PVOs in assisting VOs in carrying out development projects.

- **Restrict the number of PVOs participating in the project to six to eight** as a result of the limited project human resources and time remaining until PACD, and to be able to test the basic hypothesis with well-strengthened PVOs;
- **Prioritize those PVO projects that are innovative and that test linkages of PVOs/VOs with small business,** with agricultural delivery services, and with each other (that is, a PVO collaborating with another PVO);

- Continue to encourage participation of women in VOs according to their preferred ways of grouping themselves -- sometimes as separate groups or sometimes as mixed gender groups;

- The total number of VOs to be served during the project should be reduced to reflect the carrying capacity of the participating PVOs. The estimated recommendation is from 70 to 100 VOs, but allowance should be made for variance in numbers of persons per VO;

- USAID and project staff should review project proposal procedures for PVOs to make them simpler to follow and faster to process, and thereby shortening the approval circuit; and

- IPVOs requiring clearances from their home offices should obtain them before beginning the approval process.

Training

Training was identified as a prime requirement for villagers and entrepreneurs to become self-reliant in carrying out their own development. Two main steps were envisaged in the PP for the training component:

- PVO workshops in proposal preparation and AID accountability requirements were to be organized, and other PVO training needs were to be determined; and

- To start the process of training villagers and entrepreneurs, the project training specialist was to develop the materials and identify the trainers for literacy and numeracy training:

- Develop the material and identify the trainers for literacy and numeracy training.

  -- Help PVOs find technical expertise in technical areas such as vegetable production, livestock fattening, and integrated pest control,

  -- Monitor PVO training activities for VOs, including credit, and

  -- Train the Senegalese counterpart to take over the training specialist's duties in year 3.

Today the project is entering the implementation stage, which entails strengthening its PVO participants in substantive management and financial areas.

The question arises: "Is the management unit staffed to provide the needed intensive organizational development services to PVOs to enable them to become a reliable source of assistance to farmers?

Progress to Date

- Hired and trained Senegalese counterpart.
- Training strategy developed and approved.
- PVO training:
  - -- Planning for PVOs - eight days, 15 PVOs, 20 participants: April 1986.
  - -- Financial Management - three days, seven PVOs, 14 participants: August 1986.
  - -- Budgeting - two days, 13 PVOs, 14 participants: November 1986.
  - -- Credit Management - three days 10 PVOs, 11 participants: April 1987.
- Trainers for the PVO financial management seminar were trained.
- Materials Developed:
  - -- A PVO manual covering project identification, design, commodity procurement, financial analysis, accounting, budgeting and credit management; and
  - -- Trainers notebook for the above.
- PVO training needs:
  - -- MU personnel verified needs and are working with PVOs to develop training plans.
- Finding technical expertise for PVOs:
  - -- Pesticides -- The head of the Centre de Développement Horticole will train 25 PVO participants. The project is to propose a date for seminar.
  - -- Conservation - Centre de l'Etude et de Recherche Sur Les Energies.
  - -- Food Processing -- Institut de Technologie Alimentaire.
  - -- Reforestation -- Centre de l'Etude de Recherche Forestière.

- Literacy/numeracy
  -- Very little done to date.

Findings

Literacy/Numeracy Materials and Trainers

In line with the project's stated minimalist approach to training, that is, "of using the least amount of resources possible to achieve project objectives" and the philosophy of not offering other interventions if people do not really want them, and because of the pressure to get clients, make loans, and get repayment, the literacy/numeracy component of the training has not been activated. Furthermore, the project found that people were not asking for this training, nor has the lack of training been an impediment so far to project progress. In addition, very few people are absolutely innumerate -- clients either keep rudimentary records in French or in Arabic, or have a family member who keeps records. Since many boys go to Koran school, they have some familiarity with reading Arabic. VO members do not consider literacy and numerous training as a primary need.

Financial Management and Credit Systems

Some PVOs were thought to be stronger than they actually are. The strength of financial systems differs across PVOs. CARITAS/Mbour's financial system, for example, was already functioning well with only minor changes required. In contrast, PADEC required eight months to get its financial system to an acceptable level. Thus, most PVOs need training in financial management. With respect to credit systems, only CARITAS/Mbour had the necessary experience and expertise.

Understanding of Credit Systems

VOs vary widely in their comprehension of credit. For example, the CARITAS/Mbour VOs are well trained by CARITAS in credit management. By contrast, the AFRICARE VOs just recently organized are the most confused about credit intended for their benefit. The AFRICARE agent, newly assigned to the area, is just only familiarizing himself with the area, the people, and the C&ED project.

A workshop on credit management was sponsored by the project in Kaolack in April 1987 for interested PVOs. The CNCAS credit specialist who ran this workshop received mixed reviews from participants, for his reading of credit theory rather than presenting practical applications of credit.

Senegalese Counterpart

The Senegalese counterpart (now PVO trainer) is able to carry out more than routine duties. Since she knows PVOs well, how they operate and how villages operate, the MU feels that she could do a credible job training PVO trainers. She could do a good job in monitoring and evaluating PVO training performance in villages. Her early weaknesses were inability to innovate and self-start. This is a question of her self-confidence, which is growing as a result of her change in status from counterpart to head of PVO training, as part of the MU organizational streamlining.

She leaves shortly on a three- to four-month maternity leave. PVO stage two training must start immediately, calling for intensive, one-on-one organizational/management and financial/credit training for the individual PVOs. The PVO trainer does not have the necessary background or skills in these areas.

Conclusions

The problematic start-up of the project (personnel reasons) and the subsequent replacement of the chief of party and the financial/credit specialist, as well as the initial organizational structure, did not permit the best utilization of talents. The PVO training activity had problems in meeting the initial objective of training PVOs in succinct, appropriate proposal preparation and in meeting AID accountability requirements. Once the final group of PVO proposals are approved in July, proposal preparation and strengthening accounting systems will no longer be issues. Isolated workshops on planning, organization, and financial matters do not suffice. Instead, one-on-one, hands-on training of individual PVOs by MU staff is required. This training becomes even more urgent as the project starts implementation of the PVO-VO activity.

The majority of PVO participants are relatively weak in these areas, and they will require almost constant one-on-one training, monitoring, and follow-up. The PVO component is entering the second stage of its work, and will need to focus on strengthening its PVO participants in the substantive areas of organizational/management development, financial management, and credit program management.

One-on-one training is expensive and may belie the part of the hypothesis that states that PVOs can be lower cost providers of goods and services. The implied assumption in the PP was that PVOs were stronger than they actually are and would require less training than the evaluation team's findings bring to light. This has implications not only for Senegal, but also for other Sahelian countries, if one assumes that the same situation (managerially weak PVOs, with little experience in financial management and credit systems) generally applies. One thus concludes that the appropriate strategy is to select only the strongest PVOs, for example, the CARITAS/Mbour.

Organizational and management training is critical for many PVOs. They will have to be well organized enough to be able to deal with and train from 3 to 20 village organizations -- in their own organization, management, finances, credit, crop production, input supply, inventory control, and marketing of output.

Training in credit matters will be extremely important, given the wide range of activities credit entails, that is, understanding credit, loan solicitation, loan placement, terms of credit, calculation of interest, collateral, moral guarantees, loan collection, work-out procedures, and management of revolving funds. All of these must be thoroughly understood on both the PVO and VO levels. It will also be important given the wide variance in comprehension of credit exhibited by villagers to the PVO specialist of the evaluation team.

Finally, credit does not operate in a vacuum. Without the support of well-organized and -managed VOs and PVOs, which carry out the necessary range of activities effectively, from project identification to marketing of agricultural output, even the best managed credit program will fail.

Recommendations

To meet the training requirements in organization and credit management skills, the MU must:

- **Decide on the course of action to acquire the necessary organization/management and credit management expertise for the PVO component; and**
- **Rapidly focus this training subcomponent to be able to deliver the necessary skills to the new PVOs (approved and about to be approved) that will soon start implementing VO projects.**

Credit

The aim of the credit subcomponent is to finance productive activities of VOs under the careful supervision of PVOs. By PACD, VOs should be able to assume responsibility for managing their loans and to carry out projects with minimal assistance from PVOs. The organization of the credit subcomponent was intended to make short- and medium-term loans to groups of villagers at standard rates of interest. At the end of the project, the CNCAS is to assume the credit function. The total amount available to the project for lending to VOs through the PVOs is $750,000. The effectiveness of PVO supervision, monitoring, and training of VOs in the use and repayment of loans is intended to be a key indicator of the PVO's overall performance in the project.

Progress to Date

The organization and terms of loans for VOs have been developed by the project, approved by the NPC and USAID, and adopted by the MU's PVO component. Procedures for calculating interest rates, and for reporting and reimbursing loans, are also available. Information on credit in general is available in French to PVOs.

- Both short- and medium-term credit is available to VOs. Short-term credit is defined as a loan for up to 12 months;
- Interest rates are 11-15 percent depending upon the nature of the activity to be financed.

Introductory training has been given by the project's financial management unit to the PVO component staff in computerizing financial and credit information.

Four CARITAS/Mbour-sponsored VOs -- in MBacisse, Mghohe-Ndof Fongor, Nobandang, and Pombane -- have borrowed from the project:

	Amount	Activity
SHORT-TERM	$90,002	Poultry raising for meat and eggs. Cattle fattening/feedlots
MEDIUM-TERM	$28,214	Market gardening, irrigation equipment
	$118,216	

As of April 21, 1987, the first repayment on the short-term loans had been made and was on time.

No other VOs have received loans, although it is anticipated that loan disbursements for activities will begin during and after the upcoming rainy season.

Findings

The activity in the credit subcomponent for PVOs has been limited. It will become more active in the next few months, once the rainy season is finished. Production activities that were programmed to start earlier this year will then get under way.

The strength of the credit subcomponent is its carefully constructed guidelines, which are cognizant of the mixed history of credit in rural Senegal and specially designed to prevent failure.

The main weakness of the credit subcomponent is the PVO component's lack of staff knowledgeable about credit systems, including management, monitoring, and accountability. The staff is expecting help from a short-term consultant in June, but it is doubtful that the consultant, who has other tasks for the MU, can accomplish much at that time. The prior lack of permanent and qualified expertise in credit systems at project headquarters has delayed the development of a monitoring system for the PVO credit subcomponent. Based on work done by the assistant credit specialist before his assignment to the SSE component, the new financial management specialist is developing this system.[1]

At present, the PVO office does not have the capacity to retrieve information quickly.

Administrative delays in PVO proposal approvals have delayed credit fund disbursements, which in turn have caused some VOs to withdraw temporarily until the end of the rainy season, that is, OEF/MFR and AFRICARE with five VOs each.

Two of the three PVOs ready to implement credit programs for their VOs are inadequately prepared (AFRICARE, OEF/MFR) at both the PVO staff and VO levels.

PVOs in Senegal are experiencing programmatic changes requiring expertise in small business development and credit management. This expertise in many cases is lacking.

Members of VOs vary in their understanding of credit. Interviews in the field and quick tests for VO comprehension of credit (for example, interest rate, how to calculate repayment amounts, and what to do with a loan in case of death of borrower) show a wide variance in understanding.

Individual members of VOs were clear about what activities they wished to finance with credit from the project, and these did not, in all cases, correspond to the activities best suited for VOs. In addition, some VOs have been instructed that certain activities could not be funded by the project and that the VOs should choose from those that could be supported. This partial lack of correspondence results from the following:

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[1] Since January 1987, a qualified individual has been in charge of the project's financial activities. He is developing credit management systems for PVOs and VOs.

- A VO member may stress his or her own agenda or may not speak with the full authority of the VO. The MU and PVOs are aware of this and therefore treat the question of desired activities only in full meetings of the VO, with the VO president present; and

- In some instances, a PVO does not have the technical competence in an activity in which the VO wants to get involved or feels that the local environment will not support the activity. This was the case with OEF/MFR, which did not want some of its VCs to go into vegetable growing because of a lack of technical competence on OEF/MFR and salinity problems with the water in the proposed areas. Thus, OEF/MFR recommended cattle fattening and grain storage. The VOs may have felt that OEF/MFR was imposing the PVO choice of activity on them, but the decision was justified.

The majority of loans are for short-term market gardening and cattle-fattening projects. The most common activities identified by the VOs and PVOs for financing are market gardening, livestock fattening, and salt production, in that order. A sampling of other agricultural and agriculturally related activities that VO members would like to finance are smoking fish (for women), cereal banks, pump repair and maintenance, manioc cultivation, growing sweet potatoes, transport of agricultural output, large- and small-scale poultry raising for meat and eggs, mixed commerce (for women), village stores, blacksmithing to make farm and other machinery, and masonry to build stables and other buildings and walls.

Another sampling of desired activities, not related to agricultural production, but that reflects the occupations of Senegalese farmers for three quarters of the year, includes:

- Tailor wishing to buy two more sewing machines;
- Plumber wishing to expand business;
- Electrician wishing to buy stock of supplies;
- Hair tressers;
- Dying of cloth for *boubous* and *pagnes;* and
- Soap making.

These are candidates for the SSE component.

There is little operational linkage between the credit subcomponents of the PVO and SSE components. There is no system for identifying potential SSE clients from among VOs, although individual entrepreneurs in VOs wish to expand existing businesses.

Conclusions

One key question asked of the evaluation team was, "Is it realistic to expect the VOs to become operational within the three years left to the project?" A far better perspective on this question will be possible in one year, when 38 more VOs will be fully active, to be added to the current small sample of four VOs. If by operational it is meant that VOs will be able to sustain their activities without any assistance from their sponsoring PVO, the answer is probably no -- although the VOs will likely achieve a good measure of autonomy in some activities.

Management of credit is the key activity identified in the project design as indicative of the PVOs' ability to transfer management skills to VOs so that they, in turn, can operate more or less independently at the end of this project. Only four VOs have had experience with credit to date. So far the experience has been good. Other PVOs instituting credit funds for their VOs vary in degree of management capacity.

Whether the VOs of PADEC, OEF, AFRICARE, and those of newly approved PVOs become largely operational depends on the quality and intensity of the credit management training offered by the project's PVO component.

PVOs' abilities to implement credit programs vary widely. This may make the credit subcomponent's management potentially problematic. Whereas much attention was paid to the PVOs' accounting systems (with verifications and audit reports), equivalent attention has not been paid to the capacity of PVOs to manage credit projects -- primarily because the MU staff has not had the expertise.

Participating PVOs (except CARITAS) need additional training and on-the-job practice in managing credit programs. This assistance is particularly needed by PVO field staff. VOs considering both short- and medium-term loans will need greater supervision than the PVOs have anticipated.

Activities financed by this credit fund are not always the priority activities that VOs wish to finance, but are accepted in order to have access to credit. The MU staff is aware of this fact and a good example is the OEF/MFR case cited above.. The project staff and participating PVO should be aware that project criteria may not always be respected in the future as more VOs become active. This danger is largely obviated by MU and PVO site visits, the need for the collusion of a PVO, and the need for neighboring VOs to remain silent. Also the VO that considers this knows that it can forfeit its next credit tranche. As the project staff, and PVOs and VOs learn more about credit, opportunities should be offered for wider uses of credit.

The non-agricultural activities cited above as well as those engaged in by VO members on an individual basis could be of interest to the SBAU, assuming that entrepreneurs successfully pass the SSE screening process. The activities could also be of interest as an experimental add-on program that would accord loans for non-agricultural activities on a short-term basis.

Another key question asked was, "How should the PVO loan reflows be channeled?" To channel loan reflows away from the PVOs will hamstring their credit management efforts, will be a psychological disincentive for the managing individuals, and will partially invalidate the desired test of PVOs' ability to deliver the full range of services. Finally, it is doubtful that PVO loan reflows will be substantial and timely enough to meet the SSE capital infusion requirements. Therefore, PVO loan reflows should be channeled back through PVOs for relending to their VOs.

Recommendations

The MU must act immediately to perfect the systems and put in place the appropriate personnel to implement, manage and monitor the PVO credit subcomponent. The financial management officer should be responsible for making ready the systems including appropriate, off-the-shelf software. The personnel requirement is more difficult. The MU must recruit an experienced credit specialist to work with PVOs or train the PVO technical specialist in credit matters. During the interim, the MU can draw upon the credit expertise of the SSE component for initial training of 40 VOs that are to receive loans in the next few months.

Interpret project guidelines for financing VO activities more liberally, and as a corollary, the activities VOs wish to undertake should be prioritized according to economic viability.

Establish operational linkages between the SSE and PVO components to enlarge the portfolios of the small business advisors in the more rural areas and to take advantage of rural entrepreneurs' ambitions.

CHAPTER THREE
SPECIAL PVO ISSUES

The evaluation team was asked to examine issues relating to the basic hypothesis of the project: that PVOs can be a better alternative to government services in the provision of goods and services to farmers. The team was also asked to review a proposed major revision of the PVO component strategy.

ARE PVOs VIABLE ALTERNATIVES TO GOVERNMENT SERVICES?

Are PVOs viable alternatives to government services? Can they provide less costly, more efficient, and more flexible services than government?

PVOs, government technical services, and USAID's agricultural office were all unable to provide data on the cost of delivery of services. Without the data to analyze comparative costs of delivery of services, the evaluation team cannot judge whether PVOs are cheaper or more expensive deliverers of services than are government organizations. A proposed baseline study submitted for approval to the NPC in 1986 was rejected. Without baseline data, progress toward achievement of objectives and comparisons of costs of PVOs with those of government organizations cannot be calculated.

With only four active VOs upon which to judge performance of PVOs and draw inferences for the future, one is necessarily cautious. The four VOs cited in this evaluation are those sponsored by CARITAS/Mbour, and are achieving all the goals they set for themselves. Whether CARITAS/Mbour can provide assistance to its VOs at less cost and more efficiently than governmental organizations implies that these governmental organizations exist, are staffed, are funded, and are mandated to deliver the same services that the PVO delivers. These services (hydraulic, well equipment delivery, installation of irrigation lines, agricultural advice, pesticide use and control, and pump maintenance crews) are beyond the means of the skeletal government services in the area of Fatick covered by CARITAS/Mbour.

The three other PVOs now starting up their programs with 38 VOs will probably deliver services that otherwise would not be available to the VOs -- or if available, not on an efficient basis. The next three years of activity will show to what extent a comparison can be made.

The members of the VOs interviewed during the evaluation were positive about the help their sponsoring PVO intends to extend them. This help, however, will need to be monitored and understood in its composite parts: training programs, technical assistance, and credit for production activities. Because farmers in the Sine-Saloum and Peanut Basin do not receive agricultural credits and inputs from the GOS on anywhere near the scale they did in past years, their orientation to this project and the PVOs sponsoring it could be interpreted by them as an opportunity to receive desperately needed agricultural credit.

Since adequate data are lacking and it is too early in the implementation phase of this project, the evaluation team cannot accurately address this issue. It appears, however, that PVOs are viable alternatives to government services, insofar as certain government services either do not exist or are weak. Since a PVO typically services a small segment of the total agricultural community, it is reasonable to assume that a PVO, with adequate resources and training can be more flexible and efficient than the government in the delivery of services.

The team recommends that the MU undertake the proposed baseline study of the comparative costs of delivery of services. By mid-1987, the PVO component will have six to eight PVO participants and will be able to track their performance. Through the good offices of the NPC's principal officers, the MU should now be able to obtain approval for government cooperation in the baseline study.

WHAT SPECIAL ROLE CAN PVOs PLAY?

What special role can PVOs play as developers of infrastructure and providers of training in preparation for future direct contact between farmers and the private sector?

PVOs in Senegal, especially the IPVOs, have developed infrastructures for agriculture, health, education, and other sectors as part of the massive relief projects they undertook a decade earlier during the Great Drought. CONGAD, the umbrella organization of PVOs operating in Senegal, is examining the above issue in light of the retreat of governmental services from the agricultural sector and of the imminent redefinition of the status and role of PVOs in Senegal's development.

The large IPVOs (OFADEC, CRS, CARITAS, AFRICARE, CECI, and OEF) are raising questions that could have an impact upon the relationship between farmers and the private sector. One question concerns the relationship between large IPVOs (with their already developed infrastructures) and the smaller Senegalese PVOs and regional African PVOs. The IPVOS have greater freedom for experimentation with programs in Senegal than do their smaller counterparts, which are not as trusted by the GOS. The IPVOs would like to enlist more, smaller PVOs in collaborative programs and are searching for methods to do this. The smaller PVOs appear for the most part willing to accept such relationships. Whether the redefinition of PVO roles in Senegal, following the forthcoming decree, will clarify these relationships cannot now be ascertained. A test case, however, will be proposed by World Relief. This PVO is seeking other PVO participation and GOS collaboration in the eventual privatization of seed multiplication centers at the village level. The proposal is still in draft and will not be ready for review until the last quarter of 1987.

An example of the role PVOs can play in creating direct contact between farmers and the private sector is offered by CARITAS/Mbour. Its farmer groups have tried, but have not yet succeeded, to sell their products to the hotel markets of "la Petite Cote" in the MBour area. CARITAS/Mbour has intervened on their behalf with the hotels' managers and with the local administrative authorities -- so far without success. Were CARITAS/Mbour's participating VOs to organize themselves as larger supplying entities able to prove that they can deliver vegetable and animal products at favorable prices, on time, and at the volumes and quality desired, they would give an extremely visible and concrete demonstration of how PVOs can link farmers with the private sector. The project staff has a role to play in training PVOs and VOs in business skills, principally how to develop and deliver a suitable product to a buyer on time and at a competitive price.

SHOULD A DIRECT ASSISTANCE PROGRAM TO VOs BE ADOPTED?

Should a direct assistance program to VOs be adopted? If so, who will be responsible for the daily implementation of the activities? What are the implications for MU personnel and budget?.

The MU has proposed a direct assistance program (DAP) for VOs, as a revision of the original PVO component strategy. The revision is proposed based on the following factors:

- The planned high level of PVO participation in the project did not materialize;
- The PVO grant budget will be almost completely used if all the proposed PVOs are accepted at the June 1987 meeting of the NPC;
- There is a significant number of VOs, not currently assisted by PVOs, that could benefit from direct project assistance. These VOs have already identified and planned projects, and have approached the MU for assistance; and
- The need to have something to institutionalize by PACD (June 30, 1990). The PVO component could possibly become a rural credit institution with a management service unit for donors and for PVOs.

The DAP would be a test to determine if the project, by dealing directly with a limited number of VOs, can reinforce the PVOs already providing assistance to the rural sector (VOs). The DAP would also be the beginning of the institutionalization of the PVO component, that is, that its credit fund would be handed over to an existing (or to-be-created) rural credit institution. The MU sees the DAP evolving into an institution, post-PACD, offering credit to VOs and SSEs; administrative support and PVO monitoring services to donors for a fee; and eventually business brokerage, information clearinghouse, and management and financial consulting services.

The DAP would require hiring two field agents and a supervisor, and purchasing one pick-up truck and two motorcycles. Interest earned on loans made directly to VOs would cover this program's operational costs. It is not stated where the funds would be obtained for the vehicles, or for the initial salary costs of the new hires.

This proposed program has a certain appeal; however, it does not fit within strategic goals and the capabilities of the MU. The importance of the objectives for the original components, PVO and SSE, argues against starting the program; and the limited funds, limited time, and the staff weaknesses in the PVO component raise questions of the ability of the MU to accomplish the task.

The MU has a nascent success on its hands, the SSE component. This will require a sustained effort to ensure that it does become a real success, transferable to another formal financial institution, and that its clients, the small entrepreneurs, are able to be self-sustaining by PACD.

The MU has another primary contractual obligation, that is, to test the hypothesis that PVOs can be effective providers of goods and services to the rural (VO) community. The PVO activity must be given every chance to succeed, given current limitations, so that AID and other donors can know if PVOs are the viable alternative to government in providing goods and services to farmers.

The evaluation team concludes that it would be unwise to start this proposed program. It would stretch already thin project resources too far, it would put at risk the PVO component, and it could jeopardize the success of the SSE component. The team recommends that the MU drop the proposal and concentrate its efforts on the two principal project components over the next three years.

CHAPTER FOUR

SELECTED ISSUES

HOME OFFICE ROLE AND SUBSTANTIVE PROJECT IMPLEMENTATION

A key factor for success of any project, and especially a pilot project, is the choice of appropriate staff and organization structure. An experimental project, by its very nature, calls for individuals who are creative; flexible; cooperative; self-starting; and, at the same time, disciplined and able to keep basic objectives in mind. The structure of the organization must permit such personnel to use these attributes to the greatest extent possible.

Apparently the choice of the first chief of party was a poor one. She had never managed a development project before, and managed this one very closely, giving project staff little free rein. Personality conflicts with and within the staff arose. This situation was exacerbated by a poor choice of the first financial management/credit specialist. His interests were only in the financial management area and, reportedly, he refused to work on the credit component of the project. Finally, the first manager of the PVO component, a well-qualified expatriate, left the project after two weeks of work. Project personnel reported to the team that by mid-1986 people were at one another's throats.

Given the personnel situation, the initial project organization of two line components (PVO and SSE) and two staff components (training and financial management/credit) did not work well. The training component, composed of an expatriate and a Senegalese counterpart, felt pulled in two directions at the same time. The financial management/credit component was in fact only one-half a component, and, with the specialist's refusal to become involved with credit, the credit training activity suffered. The result was that each line component went its own way with little contact between each other.

This situation was in part cured by the arrival of a new chief of party, sensitive to the needs of this project. A change in the organization, placing the expatriate trainer under the SSE component and promoting the Senegalese counterpart to the PVO trainer under the PVO component also helped to alleviate personnel frictions. It also permitted each to devote her energies full time to the training needs of one major project component. There are still residual effects of the early personnel situation, but with the new organization, time, and effort, they are diminishing. For the first time, a team is being welded and the line components are starting to interact.

In other respects, staffing has not been ideal. The manager of the PVO component had no PVO background when he joined the project; the current SSE trainer had little SSE background. Her training was with PVOs basically in post-disaster relief training. The PVO component is entering the implementation stage, requiring one-on-one training of PVOs in organizational and credit management skills. Unfortunately, the current PVO staff is ill qualified to carry out these tasks.

Another issue was that two contracting organizations have been involved in implementing the project. One organization, New Transcentury Foundation (NTF), has a broad scope of activities; the other, Management Sciences International (MSI), has a narrower scope -- small business development and management systems. Given the broad scope of the project, it was a wise decision to have NTF as a lead. The initial organizational structure, however, with its four components accentuated the fact that two separate organizations were operating the project and that each organization had the ownership of particular programs or subprograms. Moreover, that structure did not help weld the components into a team.

Conclusions

The current structure, coupled with a new chief of party and the replacement of the financial management/credit specialist, is conducive to implementing the project efficiently and as a team effort. The next hurdle will be the appropriate staffing of the PVO component so that it can carry out the intensive training and monitoring of its participating PVOs.

WHAT IS THE GOS ATTITUDE TOWARD PVOs?

Senegal's Economic Reform Program provides for the gradual disengagement of the government from activities that are better left to the private sector. Disengagement of this sort is naturally a painful process, entailing the disappearance of jobs and of entire organizations. As part of this process, the C&ED project is an experiment to see if PVOs are a viable alternative to government services in the provision of services to the rural community. This places the project in a delicate position, requiring a sensitivity in its work to operate within government policies and guidelines for development, and a sensitivity with regard to local and regional authorities.

USAID/Dakar provided U.S. decentralization tours for GOS officials (*sous-préfet* to NPC level) to see how PVO and community efforts can replace or complement traditional government activities in developing or revitalizing rural and urban economies via cooperative action involving the private sector.

In this regard, the evaluation team was asked three questions:

- What is the GOS attitude toward PVOs?
- Will the GOS permit them to develop into successful providers of goods and services?; and
- Has the project, including decentralization tours for GOS officials, had any effect on changing GOS attitudes?

Findings

GOS Attitude Toward PVOs

In general, the GOS attitude toward PVOs and their possible assumption of traditional government roles seems to be one of wariness and of wanting to control PVO activities. The attitude varies depending on whether the PVO is a well-known, financially strong, competent IPVO, or whether it is a relatively new, relatively weak and unknown local PVO. The IPVO has better acceptance than does the local PVO.

The GOS is wary because PVOs are seen by many as a threat to government services. Furthermore, a strong tradition of central government, including some patronage, is being asked to give way. Relations between governments and PVOs are one topic of a June 1987 international conference of PVOs held in Dakar.

A consensus of PVOs regarding GOS attitudes was simply put: "The GOS distrusts us, and we distrust the GOS." When asked about collaboration in the field between existing government services and PVOs, the PVO response was *"le terrain est toujours bien surveillé"* -- not a direct response to the question, but indicative of the feelings of many PVOs toward the GOS.

Will PVOs Be Allowed to Become Successful Providers of Goods and Services?

Since this project is a first of its kind, employing PVOs in somewhat direct competition with government services, and since it is just moving into its implementation stage, one cannot comment on whether PVOs will be allowed to become successful providers of goods and services. One can comment, however, on the impact of the project itself on GOS attitudes. Reportedly, prior to project start-up, the GOS did not want the project. Now, however, the NPC and local government officials seem to be somewhat kindly disposed toward it. The reasons for this change appear to be:

- The initial success of the SSE component;
- That one aim of the project is to provide the opportunity for qualified ex-parastatal employees to go into business; and
- That 10 current parastatal employees participate in the SSE program is not lost on regional or local GOS officials.

Moreover, visits by two members of the NPC to the project and in the field with the evaluation team were extremely productive -- for the NPC members, the project, and the team. The NPC members gained first-hand experience with participating PVOs, VOs, and SSE clients. By seeing activities and successes, listening to the ideas, hopes, and problems of the village groups (and the entrepreneurs), they came away with a better understanding of the potential of the project, an understanding that is hard to gain from Dakar.

The project benefitted directly by the attendance of one NPC member at the monthly Credit Committee meeting. His personal knowledge of the region and his experience as a former sous-préfet came into play in the Credit Committee's evaluation and decision on a loan application. This NPC member was present throughout the entire meeting during which some 20 diverse entrepreneurs' applications were put forward for scrutiny and approval. The evaluation team was assisted by both the members' knowledge of the area, and their facilitating role with local government officials. This latter assistance gave the team the opportunity to discuss the project at length with officials, rather than just pay the usual courtesy calls.

Decentralization Tours

The decentralization tours are but one factor in changing attitudes. All parties agreed that the objective of the tours exposure to decentralization, the objective was achieved. If a second objective was to show that PVOs were not a threat, the objective was achieved -- in the U.S. case -- and is beginning to be achieved in the case of Senegal. If the objective was to show the relevance of U.S. activities to the project's activities, the objective was not achieved.

This last consensus was borne out by NPC members who felt that the tours had little direct connection with the project, stating, for example, that the size of a small business in the United States is much different than the size of a small business in Senegal. Furthermore, each participant viewed the tour from his own interest, rather than from a broader perspective of what can be learned from this which will be helpful for Senegal.

Conclusions

The attitudes of GOS officials (local, regional, and NPC) connected with the C&ED project are changing slowly. They will need proof, however, that PVOs can indeed provide the necessary goods and services farmers.

The impact of the project has been generally favorable, especially after NPC members have visited and seen first-hand the outputs of the project. This can only help change attitudes in a favorable way.

The decentralization tours can be a valuable catalyst, if they are more attuned to the needs of the participants, and if the tours are followed up on.

Recommendations

The following recommendations are aimed at strengthening the process to change attitudes, which is already underway:

- The project and USAID should concentrate on strengthening no more than six to eight PVOs, so that those PVOs become an effective source of assistance to farmers. CER and other government service collaboration in project identification, project preparation, and technical assistance to the farmer should be actively sought and used wherever possible. Effective PVOs, collaborating with governments services, will help change current suspicious attitudes;

- **The project should have more NPC members visit the project and its field work.** On their visits they should have the opportunity to participate not only in the daily operations, but also in longer range planning activities. As participants, they will not only get a good feel for the project's potential, but also will better understand the problems encountered and the prerequisites for success -- especially for the PVO component;

- **For future U.S. decentralization tours, USAID should consider ways to make the tours tie in more closely with the scale and type of operations the GOS officials deal with.** In 1986, USIS/Senegal sent three GOS officials as part of a group of Francophone West African government officials on a month long U.S. visit to see how the public and private sectors can collaborate to create a climate in which small businesses can thrive. In brief, the program dealt with such topics as business start-up in underdeveloped agrarian areas (Tuskegee, Alabama), city-sponsored "incubators" for small businesses, and self-help membership organizations. "The program's title is "The Role of Small Business in Economic Development: An African Regional Group Project."

A second USIA program, entitled "The Role of Small Business in the U.S. Economy," dealt with incubators, financial assistance for small businesses, finding market niches, small enterprise development programs for low-income rural areas, and technical and managerial assistance to low-income women interested in starting a business.

This program also dealt with the Southshore (Chicago) Bank, the only community-owned bank in the United States. It not only promotes businesses in its depressed community, but also assists the Grameen Bank in Bangladesh, which provides loans to small entrepreneurs.

The project plans to have an open-house during early autumn 1987 for PVOs, banks, businessmen, and GOS officials. This open house would be a good opportunity to assemble those GOS officials who have gone on the decentralization tours for a mini-retreat to explore what they think about decentralization.

ROLE OF THE NPC: CURRENT AND FUTURE

To date the role of the NPC has been threefold:

- It reviews PVO grant proposals for approval;
- It reviews basic project strategies for approval; and
- It is the GOS link with the project and the project's link with the GOS.

Initial GOS skepticism about the project has been somewhat assuaged by the NPC's role as a window on the PVO scene. This window has three aspects. First, it has had a certain positive public relations effect as the NPC has seen definite progress in both components of the project. Second, as members of the NPC become more intimately involved with the project, they learn, first-hand, what the project is doing and what effect it is having on ultimate beneficiaries. This knowledge then gets passed on to the members' respective superiors and ministries. Finally, it gives the GOS a role in defining, to a degree, how decentralization can happen because the government is taking part in an experimental project.

In the final three years of the project what should the NPC's role be? If all parties agree that the proposed recommendation to limit the number of participating PVOs to six to eight is sound, the PVO grant and project strategy approval role of the NPC changes to monitoring and follow-up.

There are other roles, however, that the NPC can assume. Individual members of the NPC can become more directly involved with the project. They can visit PVO and entrepreneur sites and learn first-hand about the project. They can participate with the project, using their own work experience to help in its operation. A good example of this is the recent participation of a NPC member in the project's Credit Committee meeting. This member's prior experience as a *sous-préfet* helped the Credit Committee avoid making a premature, and possibly bad, decision on a loan application. **The MU could actively solicit and draw upon NPC members' knowledge of GOS policies and practices,** as it encounters potential problems and bottlenecks, and before it goes into areas such as dealing with PVOs or PVO-like organizations that do not have complete legal status. **Conversely, the NPC could be more of a catalyst than a window with the GOS.** By having their collective ear to the ground, listening to the ultimate beneficiary, the NPC members could feed information and recommendations back to their respective ministries. This has started to happen already with one member who has alerted his minister that villagers want their own credit institutions in their own villages. He also intends to propose that the GOS announce the prices of basic foodstuffs and commodities in major markets daily on the radio.

The NPC could, for example, have informed input regarding PVOs, their activities, and the legalities that govern them. In Senegal, under a law promulgated in 1901, a PVO cannot engage in any profit-making operations even if the profits are ploughed back 100 percent into the charitable activities of the organization! This type of unnecessary law should be changed, and it is the kind of action the NPC could suggest based on hands-on experience with the C&ED project.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

The principal conclusions and recommendations of this evaluation follow. The recommendations target mid-course corrections the project should make to focus the activities of the next three years on its original objectives and to address the needs of institutionalizing its components post-PACD.

PVO COMPONENT

Conclusions

This component has had a slow start. The hoped-for output of 210 PVO-assisted VO projects was optimistic. The majority of PVOs are relatively weak in organizational and management development skills and in financial and credit program management. Moreover, the PVO component personnel do not have the necessary skills to strengthen PVOs in these areas.

Given the time and resources left to this component, and the requirement for continued, close supervision and training of the participating PVOs in the implementation phase, the PVO component must focus entirely on testing the underlying hypothesis that PVOs are a viable alternative as providers of goods and services to farmers.

The PVO component is not as rigid as many PVOs claim. The very nature of a credit program implies certain requirements for profitability of projects and administrative capacities of the PVOs delivering the credit.

Few PVOs have the administrative capacities or the experience with VOs in the Kaolack/Fatick region necessary to deliver credit and successfully train villagers in credit management.

Recommendations

1. Limit the number of participating PVOs to six to eight (and VOs to 70-100), ensuring a distribution ranging from local PVOs to IPVOs, to strengthen all of them to become effective deliverers of goods and services by PACD.

2. Given the limited resources and time of the PVO component, drop the DAP proposal.

3. Decide on the course of action to acquire the necessary organization and credit management training skills for the PVO component. The PVO training subcomponent must be honed to deliver the necessary organization/management and credit management services to PVOs so that they, in turn, can organize their VOs to become self-sufficient, bankable clients by PACD.

4. Act immediately to make ready the systems and put in place appropriate personnel to implement, manage, and monitor the PVO credit subcomponent. Utilize the financial management advisor to prepare all the necessary credit management systems for both PVOs and VOs, and to help put them in place (system preparation is ongoing now).

5. Seek ways to loosen the criteria further for VO project financing by the credit fund to include more of the economic activities desired by VOs.

6. Employ the NPC members more on the ground. They are resources to which the project can have access. More important, the NPC can become a catalyst for GOS policy with regard to the PVOs, as members feed back first-hand impressions and ideas for change to their superiors.

7. Establish operational linkages between the SSE and PVO components to take advantage of lending opportunities to small-scale rural entrepreneurs who are VO members.

SSE COMPONENT

Conclusions

This component has laid a solid foundation for success. Now is the time for it to define carefully the actions it must take to 'achieve self-sustainability and profitability before PACD.

The target group is not large enough to provide the market necessary to attain profitability. The average loan size and number of loans per advisor are too small to achieve profitability. Only by enlarging the target group will the SBAU reach its objective of profitability.

The revolving credit fund will require a significant injection of capital, beginning in January 1988, to provide the loan funds necessary to achieve profitability.

The interaction of the business advisors with the entrepreneurs is critical to the success of the project. The advisors check references, and provide advice and a formal planning service to the entrepreneurs. This combination appears to cover all the critical aspects of good project selection and sound programming, allowing the entrepreneur to understand his repayment requirements. The advisors do not have the necessary level of expertise to perform their tasks unassisted.

The project is not making proper use of the computer systems available. This situation stems in large part from ignorance of the capabilities of the computer software by SBAU staff.

The SBAU will have to focus all of its attentions and energies on the refinement of the credit fund's operation if it is to reach the goal of profitability and institutionalization by PACD.

Recommendations

Personnel

1. Involve the new financial management advisor in analyzing SSE strategy changes considered, to think through credit aspects and the financial implications for the project and the banking institution that may become the "parent" of the component post-PACD. With his formal banking experience, the financial management advisor is a valuable, underutilized, asset for the project.

2. Hire two business advisors, one to replace the fired advisor and a second to take advantage of unmet loan demand in Kaolack itself.

Systems Refinement

3. The financial management advisor should create the appropriate models with the SBAU management and teach them how to use the model generated information. The financial management advisor is adept at computer applications to finance and banking. The SSE component needs computerized systems to meet normal operational requirements. More important, however, is the need for financial models to help chart strategic decisions leading to self-sustainability and profitability.

4. Retrain (including lateral-learning as reinforcement) advisors in the fundamental analytic techniques. This will strengthen the business client project analysis capability, and therefore the quality of the portfolio. Include market analysis and marketing skills in the training.

5. Revamp the advisor bonus system to respond to all the goals of the component. Specifically, the bonus system must address not only loan repayment, but also the acquisition of new, solid clients and clients of desired target groups. Moreover, as further incentive to the SSE component, the advisors' supervisors should be included in the bonus and penalty system.

Loan Portfolio

6. Tailor the loan portfolio to meet project and USAID objectives and a bank's requirements:

- Loosen lending criteria to include some larger, non-target group clients, for example, clients who may need short-term working capital for trading purposes. These clients may not have all the desired developmental characteristics, but they subsidize the smaller target clients;
- Raise the loan ceiling from 3 million CFA to 6 million CFA.
- Keep the average maturity of the portfolio short -- 9-12 months; and
- Increase the number of loans per advisor each year from 24 to 40 by June 1988, and to 55 by June 1989 to reach break-even.

7. USAID should approve a transfer of at least 104 million CFA from the PVO grant component to the SSE component's revolving credit fund. This will ensure enough capital funds to attain profitability.

8. Invite the director of CNCAS/Kaolack to be a member of the Credit Committee to add his banking expertise to committee deliberations.

9. To attract a bank (such as, CNCAS, SONABANQUE, USB, or SGBS) as a future partner or parent:

- Start communications and visits now with possible candidates, regarding the requirements of both parties for an effective, future consolidation; and

- Structure the portfolio for profitability and safety (diversity and low default).

Training

10. Do not pursue the SYOB program at this time. Despite the potential benefits and low marginal cost, it will distract the SBAU management from its principal goal -- attaining self-sustainability.

CHAPTER SIX

LESSONS LEARNED AND REPLICABILITY

This section sets forth the lessons, positive and negative, that have been learned over the life of the project to date, as well as during the evaluation. It addresses those elements that AID should consider replicating in future SSE projects and a few minor elements from the PVO component,[1] and those elements that should be avoided in both future SSE and PVO projects.

THE PROJECT

The organization and staffing of an experimental project must be given top priority in the design phase. Implementation of this project was delayed because of inappropriate key personnel and an organizational structure that was too loose. The organization must be designed to permit experimentation and creativity, on one hand, while ensuring rigor and focus on the project's ultimate objectives, on the other hand.

A team effort, with links between the SSE and PVO components, is key to overall success. A well-qualified chief of party, capable of welding the personnel of two organizations, American and non-American personnel, and two different components, into one effective project is vital.

The minimalist approach does not always work, nor is it always appropriate to project success. This was evident in PVO training where the management and financial and credit seminars were insufficient to increase PVO capabilities in these areas. Another example was the project's decision to offer accounting training to entrepreneurs only if it was requested by the entrepreneurs. Banks, however, require

[1] It is too early in implementation of the PVO component to determine what major elements of the PVO component have been successful and thus can be considered for replication.

that businesses have accounting systems (even if rudimentary) before they will consider them as clients.

SSE COMPONENT

To Ensure Project Success

The SSE component is a nascent success. The following lessons learned apply to ensuring the success of the SSE component:

1. **Select strict, conservative loan criteria.** Well-defined and thought-through loan criteria, strictly applied during the first year, will lead to sounder loans and a higher repayment rate. The selection of very conservative loan criteria, such as short time frames and low ceilings, will reduce the risk of the loans and increase the probability of repayment. Loan conditions can be relaxed at a later date once the right habits are formed, precedents set, and confidence established.

2. **Select the highest, reasonable interest rate allowable.** Lending to SSEs is a very expensive proposition, so the project should charge what the market will bear, not what is believed to be a fair price. In the unlikely case that the rate is higher than needed to cover lending costs and some profits, it will be easier to lower the rate in the future than to raise it -- should the chosen rate be found not to cover costs. This will also reflect the future real costs of funds for the SSE and will lead to the selection of cost-effective production technologies.

3. **Prepare the field properly: do not lend too soon.** To lend money and have it repaid, the institution must understand its client, and the client should understand the institution. By carefully identifying the needs of the client firms, the correct loan criteria can be selected. By spending time with the firms before making any loans, the advisor will have a better understanding of how the firms operate and the motivations of the entrepreneurs. This will improve his or her judgment.

4. **A bonus plan can be an excellent incentive.** A well-thought-through bonus plan, which also bears a threat of loss by the advisor if he or she performs poorly, can be an effective incentive builder for good initial analysis and good follow through on the part of the advisors. It must be applied judiciously.

5. **The loan fund to pay for itself.** From the outset, establish the small business advisors and their agencies as profit centers. To meet the profitability test, allocate all applicable direct and indirect (overhead) costs to the profit center.

Although the loan fund's capital is free in the project stage, apply the cost of capital that any future parent bank has to pay. Adjust the allocation of headquarter's overhead to allow for high expatriate costs. By so doing, a realistic hurdle is set, component success can be accurately measured, and the component will have met the acid test of the marketplace -- profitability.

To Prepare for Institutionalization

A key part of this project is the institutionalization of the SSE component by PACD. Following are the main lessons learned that should be applied in future SSE projects.

1. **Use banking standards.** This is a private sector-oriented component, geared toward being accepted into the formal banking sector. If it is to be accepted, it must be rigorous enough to meet banking criteria in addition to development criteria.

2. **Choose winners for the first loans.** Nothing succeeds like success. The first enterprises to receive loans should be guaranteed winners to set the right standards for those that follow. It will also present a better image when trying to sell the component to a financial institution at a future date. Thorough follow-up by the SSE specialist is critical for making sure that only winners get selected in the first sets of loans reviewed.

3. **Make early contact with the formal banking sector.** Early and continuing contact with the banking sector is necessary to convince a bank that such a project merits their consideration as the future parent.

4. **Build portfolio quality.** The bona fides of a SSE loan portfolio can be built by adding larger, solid clients and through downstreaming business. "Downstreaming" is simply tying in with local large businesses to lend to some of their subcontractors, for example, builders, electricians, plumbers, and other suppliers of goods and services. Thus, known clients enhance the loan portfolio to be institutionalized.

5. **Test portfolio attractiveness.** Banks can be interested in an SSE project if they perceive the project's portfolio as a future stream of income. The perception can be tested by selling a package of the best loans to a bank on a recourse basis, that is, the project bears the entire risk of default. The bank has only one account to service, but has entree to say 25 potential new clients, and receives a fraction of the interest earned on the loans risk-free. The project gets loan capital and has taken a first major step toward institutionalization.

PVO COMPONENT

This component is just starting its implementation phase, and it is too early to have gleaned implementation lessons. Therefore, the following lessons learned are drawn from the experience of the project in its start-up of this component.

Start-up Phase

1. **Concentrate project efforts on a small number of PVOs.** The potential PVO participants are not as strong as previously thought. Very few PVOs in Senegal are strong enough in management and financial skills to be successful in such a project. Many, including local branches of IPVOs, lack much of the management structure and skills to deal with up to 10 VOs in agricultural production and marketing activities, not to mention managing a revolving credit fund. Many PVOs can not meet USAID's accountability standards. Therefore, select a few PVOs, representative of a range of

skills and that can be adequately strengthened, to test the basic hypothesis -- given the project's limited resources and time to accomplish the test.

2. **Identify and screen PVOs early.** Identify strong PVOs and those capable of being strengthened very early in the life of such a project. Analysis of the PVO community in the target region should be done in the design phase of the project to determine that PVOs actually are operating and do have experience with VOs in the project region.

3. **Delays in PVO project approval process must be reduced.** Delays in PVO project approvals have been as long as 11 months. Part of the delays are due to incomplete understanding of AID accountability requirements by project staff. The contractor's home office must impart this knowledge to its staff prior to project start-up in-country. Early identification and screening of PVOs to find those suitable for inclusion in the project will help reduce delays.

4. **Involve the host country government.** Suspicions of government officials can be allayed, and cooperation can be attained by involving individual officials in an advisory and resource capacity. Involvement helps to defuse the perceived threat of such a project to existing government services.

5. **Allow for more PVO and VO participation in the decision process that affects them directly.** This will mute PVO criticisms about project rigidity, reduce the existing adversarial atmosphere between many PVOs and the MU, and will encourage participation. Becoming acquainted with PVOs in the decisionmaking phase regarding activities to undertake and local government resources to use will also help early screening and selection.

6. **Training must be practical and hands-on.** The consensus of project staff is that the seminars on organization and financial matters were only an introduction. The implementation phase will require a great deal of one-on-one training with most of the participating PVOs, to strengthen them to the point where they, in turn, can effectively train their VOs.

7. **Credit comprehension must be accentuated at all levels.** The ultimate success of the PVO component is if VOs can be financially self-sustaining in their activities. Credit and its proper management are key to VO success. Currently, understanding of credit is the substantive weak link from PVO component staff to VO members.

8. **VOs can be good sources of entrepreneurs.** Both project staff (PVO component) and the evaluation team found individual VO members, with on-going businesses, who should be funneled to the SSE component. A formal mechanism should be established for the SSE component to tap this pool of entrepreneurs.

REPLICABILITY

SSE Component

At present the SBAU is a distinct entity in the project. With the exception of some logistical benefits, it could be separated from the project tomorrow and placed in another institution or in another part of Senegal. A complete set of administrative systems has been designed, training programs developed, and analytic protocols established. The autonomy and self-sufficiency of this unit make its replicability feasible.

The key components of the project are the advisors in the field and the SSE specialist as a supervisor. The systems shape and reinforce the work that is accomplished by these people. Replicability of the advisors depends on a thorough selection process, identification of those qualities that make them effective, and a year of rigorous training. A competent SSE specialist can accomplish this.

The requirement of a loan fund, or access to capital to lend, is an expensive element, but easier to replicate than the selection and training of the advisors. The year of required start-up is the most expensive element of the program, but must be seen as an investment that will repay itself within four years. Because the overall component can be self-sustaining, it could be replicated with a reasonable amount of expense.

The temptation to expand into ancillary activities should be avoided. The SYOB program and those parts of the DAP allied to the SSE component, such as brokering and management consulting, are examples of such ancillary activities. Successes such as the SSE component are hard enough to come by in Africa. Therefore, do not dilute resources on programs that, while attractive, will detract from attaining the primary objective.

PVO Component

This component has just entered the implementation stage. Replicability is difficult to assess except for a few elements undertaken in the start-up phase. Those few elements are discussed below:

- The pooling of services for PVO use, for example, a database of spatial information on the region, equipment, and copying and audio-visual facilities; and

- The operations manuals for PVOs on project identification, project design, commodity procurement, financial analysis, accounting, and managing a credit fund. These manuals not only help the PVO, but also protect the project's investment in training. They are also the beginnings of a PVO's management information system.

To be avoided:

- The design of an overly ambitious program of too many PVOs and VOs;

- An overly rigid project structure and requirements, allowing for little contribution by PVOs to decisionmaking, which alienates many PVOs from the outset; and

- Extraneous new activities, such as the proposed DAP. Even scaled down, the PVO component will be difficult to implement and will require all the time and effort possible by the PVO component and MU staffs.

Concluding Comment

It is not clear at this point if the PVO component will be successful. The danger of combining two such components, is that the weaker of the two, the PVO side, may put such demands on overall resources as to jeopardize the success of the SSE side. These two components are sufficiently different, and the SSE component has such a good chance of success, that future SSE projects should be entirely separate.

APPENDIX 1

LOGICAL FRAMEWORK

- PVO Component
- SSE Component

APPENDIX 1

PVO COMMUNITY AND ENTERPRISE DEVELOPMENT

LOGICAL FRAMEWORK - PVO COMPONENT

AUGUST 1983

ACHIEVEMENTS	INDICATORS	VERIFICATION	ASSUMPTIONS
Program Goal: To progressively decontrol and commercialize rural production in Sine Saloum.	Private sector growing in real value compared to costs of production. Parastatal functions being replaced by private sector.	Regional production statistics. USAID agricultural sector research project statistics.	1. GOS economic Reform Plan implemented. 2. GOS administrative reform supports climate for village-based development. 3. Price structures are not production disincentives
Program Purpose. Village organizations assisted by PVOs are capable of carrying out development projects which benefit themselves and the region.	End of Project Status 1. Village organizations assisted can identify project needs, manage inputs, and select technical assistance from local sources. 2. PVOs are carrying out collaborative development projects with other village organization not financed by USAID using project models and skills acquired.	1. VOs'projects sent to CER. 2. Records kept by Gov. of SS and developpement communautaire. 3. 6-month periodic review records. 4. Key project indicators in monitoring system.	1. Projects selected by VOs contribute to privatization of rural production. 2. Targeted activities correspond to VOs' economic and ecological needs.
Outputs: 1. Village organizations implement 270 sub-projects in priority areas defined by project. 2. PVOs trained in project development, management implementation, and evaluation by Management Unit. 3. Credit used in sub-projects and repaid.	1. 210 projects implemented by EOP 2. 20 projects planned not requiring USAID assistance. 3. Staff of PVOs managing projects and fulfulling donor accountability requirements without assistance at EOP. 4. Credit repayment percentage is within project target and CNCAS assumes function at EOP.	1. Project proposals sent through regional channels. 2. Information from other donors. 3. PVO plans and accounts. 4. Credit records kept by MU. 5. Project targets monitored by MU.	1. Spatial analysis finding prove applicable to VO needs and regional conditions. 2. PVO TA is sufficient to meet VO needs. 3. MU targets PVO needs accurately. 4. GOS attitude toward PVOs allows for project implementation. 5. PVOs are committed to VO self-sufficiency.
Inputs 1. PVOs assist VOs in project implementation and channel grants. 2. MU trains PVOs and processes grants. 3. MU provides credit and administers repayment.	- 11.5 person-years (py) of Long Term Technical Assistance (TA); - 18 person-months of Short-Term TA; - 15.5 py of local-hire staff; - 2 vehicles; - $800,000 for credit revolving fund; - $2.5 million through PVOs for village projects; - $400,000 for training materials development.	1. Project documents 2. USAID reports 3. Controller's records. 4. PIO/Cs.	1. PVOs accept TA and apply it to their organizations and VOs 2. CNCAS becomes functional by EOP. 3. In-country procurement system functions efficiently to provide inputs on time. 4. Local TA sources cooperate with VOs.

PIO/T No. 685-0260-87 : MID-TERM EVALUATION

PVO COMMUNITY AND ENTERPRISE DEVELOPMENT

LOGICAL FRAMEWORK: SSE COMPONENT

AUGUST 1983

ACHIEVEMENTS	INDICATORS	VERIFICATION	ASSUMPTIONS
Program Goal: To progressively decontrol and commercialize rural production in Sine Saloum.	Private sector production growing at 5% per year; parastatal economic activities and staff constant or declining.	Regional macro-economic analysis of Sine Saloum.	1. GOS economic Reform Plan implemented. 2. GOS policy continues to reflect decontrol and prioritization of agricultural related productio[n] and services and to decentralize responsibilit[y] for SSE development assistance.
Project Purpose: SSEs assisted by group are managing and sustaining their own growth; assistance is being provided to other SSEs in the region by a Senegalese institution.	End of Project (EOP) Status 1. At EOP 50% of SSEs move into formal credit and banking system. 2. Goods and services produced by SSEs used by rural population to increase agricultural production in noticeable quantities by EOP.	1. Records of bank and and CNCAS. 2. Market spot checks in area. 3. Data collected in evaluation.	1. GOS policy and pricing policies are conducive to SSE growth. 2. Senegalese institution in Sine Saloum develop to the point that institutionalization of SSE assistance is possible. 3. Credit institutions in Sine Saloum are capabl[e] of meeting SEE needs.
Outputs 1. 675 SSEs increase production of agricultural-related goods and services. 2. SSEs performing business management functions independently. 3. Credit used by SSEs and repayed.	1. Goods and services produced by project-assisted SSEs are being used in the region in rural markets and elsewhere. 2. Books and records of assisted-SSEs reflect skills taught in project. 3. After year 6, 60% of SSEs achieve projected increases in output, profitability and employment. 4. After year 4, 50% of SSEs follow improved methods and have repaid all credit. 5. After year 6, 70% of clients follow improved practices and have repaid all credit.	1. Businees records. 2. Statistics provided by Chambre de Métiers. 3. MU credit records.	1. Goods and services produced correspond to agricultural productio[n] needs. 2. Credit and technical assistance/training are sufficient to yiel[d] productivity increases for SSEs.
Inputs: 1. Train entrepreneurs in improved business practice. 2. Provide credit needed for SSEs.	- 5,5 person years of Long-Term TA; - 18 person months of Short-Term TA; 30 person years of extension and other staff; 2 pickup trucks; $500,000 for credit revolving fund; office equipment and supplies; 2 Peace Corps volunteers.	1. MU financial records. 2. Commodity purchase records.	Training means selected are well adapted to needs of SSEs.

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APPENDIX 2

SCOPE OF WORK

APPENDIX 2

SCOPE OF WORK

The team will:

- Evaluate the effectiveness of the SSE and PVO components and the training component which supports these two components.
- Analyze selected management issues such as institutionalization of the revolving credit fund for PVOs and SSEs and the effectiveness of the structure of the Management Unit.
- Recommend actions for modifying the project as necessary.

1. SSE Component

   a. Is the SSE component on the right track to achieve its primary objective of assisting small businesses to become self-sustaining?

   b. Is the present target group appropriate? How many SSEs can realistically be served by the project? Are the SSEs receiving the full range of services needed?

   c. What are the most important obstacles to new business starts in the regions? Are they political, economic, or other constraints?

   d. Do repayment patterns suggest any generalizations about future trends?

   e. Are the number of agents and the present organization and geographic distribution sufficient to reach the targets set by the project?

   f. What activities are necessary to institutionalize the SSE component by end of project?

2. PVO Component

   a. Are PVOs viable alternatives to government services? Can they provide less costly, more efficient, and more flexible services than government?

   b. What special role can PVOs play as developers of infrastructure and providers of training in preparation for future direct contact between farmers and the private sector?

c. What is the GOS attitude towards PVOs? Will the GOS permit them to develop into successful providers of goods and services? Has the project, including decentralization tours for GOS officials, had any effect on changing GOS attitudes?

d. Were original projections regarding the number of village organizations to be served by the project realistic given the number of PVOs active (or willing to participate) in the project's zone of operation? If not, what is a more realistic number?

e. Is it realistic to expect the village organizations being helped by project-funded PVOs to become operational within the three years that are left to the project.

f. How should PVO loan reflows be channeled?

g. Should a direct assistance program to PVOs be adopted? If so, who will be responsible for the daily implementation of the activities? What are the implications for MU personnel and budget?

h. Is the approval circuit for PVO proposal submissions satisfactory?

i. Is the Management Unit staffed to provide the needed intensive organizational development services to PVOs to enable them to become a reliable source of assistance to farmers?

3. <u>Selected Issues:</u>

a. The evaluation team should examine, but not dwell upon, home office role in mobilization and contractual issues as they directly affect substantive project implementation.

b. The evaluation team should examine the role of the NPC to determine its contributions to the project and future role.

c. Given current implementation arrangements, is this project replicable? What are the key components that could be replicated within reasonable cost?

d. The team should examine the validity of project assumptions as stated in the logical framework and recommend actions to counter inaccurate assumptions.

REPORT

1. The team leader is responsible for preparation of the final report to be submitted by the evaluation team. The report will contain the following sections:

a. Basic Project Identification Data Face Sheet

b. Executive Summary

No more than four pages single-spaced including statement of purpose of the project and of the evaluation, a statement of the conclusions with topics identified by subhead, and recommendations (corresponding to conclusions) and specifying, where possible, who or which party should take the recommended action.

c. Table of Contents

d. Body of Report

Will include a description of the context in which the project was developed and implemented, and provide the information (findings) on which the conclusions and recommendations are based. Should discuss the logical framework and the degree to which outputs and inputs have been attained and the validity of the project assumptions.

e. Conclusions and Recommendations. Separate, short and succinct.

f. Appendices

As necessary and containing at least the evaluation scope of work and description of the methodology used.

2. Submission of Report

a. The evaluation team will make an oral presentation of the findings, preliminary conclusions and recommendations to the USAID Project Committee no later than one week prior to departure of the team from Senegal.

b. The final draft of the evaluation report will be submitted in English to USAID at least three days before departure of the evaluation team leader from Senegal. During the course of the evaluation the team will maintain contact with USAID/Senegal through the Project Officer in PDO. USAID will arrange to have the report translated and typed in French.

c. 15 copies of the final evaluation report in English will be submitted to USAID/Senegal so that it arrives in Senegal no later than one month following departure of the team from Senegal.

APPENDIX 3

METHODOLOGY

APPENDIX 3

METHODOLOGY

1. Reasons for the Evaluation

The reasons for this mid-term evaluation are to assess the progress which the Community and Enterprise Development Project (No. 685-0260) has made to date, and to analyze proposed project modifications. The team has also been asked to examine options for institutionalizing the two project components by PACD, and to determine which components/sub-components are replicable at reasonable costs. Since the project is in a relatively early stage of its activities, and the Management Unit is rethinking some of the original design elements, the intent of this evaluation is to diagnose design and implementation issues, to replan if necessary, and to recommend activities/directions which will help the project institutionalize its two components by the end of 1990.

2. Composition of the Evaluation Team

David P. Harmon, Jr., Team Leader
William J. Grant, Small-Scale Enterprise Specialist
Barbara C. Skapa, PVO Specialist

3. Planning and Orientation

Prior to departure from Washington, the team met with representatives of TCF and MSI to review the background of the project and its progress to date. The team also met with Ms. Musu Clemens of USDA/OICD, who is responsible for the decentralization tours given to GOS officials of the Kaolack/Fatick region and to certain NPC members. Members of the AID/W Sahel office briefed the team on its perspective of the project and the implications of the project for possible future projects of its kind in other areas of Senegal and in other Sahelian countries. The team also met with Salwa Levsy of OEF to discuss her recent experience arranging the OEF/MFR grant.

Upon arrival in Dakar, the team met with the USAID Project Development Officer, the Project Officer in charge of the project and the USAID Project Review Committee to review the status of the project, the team's scope of work and the field work in the project area. The team also had the opportunity to meet with various members of the NPC to discuss the project and its future from the GOS perspective. As preparation for the intensive field work portion of the evaluation, the project's COP briefed the team in Dakar for a full day covering the evolution of the project, its progress, its problems and the modifications in design which the contractor wishes to make.

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4. Data Collection

Three methods of data collection were used:

a. Examination of documents.

b. Personal interviews of project personnel, PVO personnel, regional government officials, project beneficiaries (VO personnel, individual farmers and small-scale entrepreneurs), and bank officials.

c. Direct observation of project activities.

Project documents were provided by AID/W and NTF/MSI prior to the team's departure from Washington. Additional documents were supplied by the USAID Project Officer and by project personnel throughout the work period. A member of the NPC, Mr. P. Kandji, worked with the evaluation team on data collection, interviewing and analysis. Another member, Mr. M. Sall, spent a day with team in the field calling on entrepreneurs funded by the project.

Semi-formal interviews were held with all members of the project staff in each principal area of activity. The interviews were structured to the extent that they gave the team members additional background, current status of project activities, as well as the interviewee's perceptions/opinions and recommendations for both the remaining three years of project activities and for possible options after PACD.

All interviewees were assured that all information received would be treated objectively in the evaluation. Furthermore, they were reminded that the evaluation was of a constructive nature. The team explained that the objectives of the evaluation were not only to measure progress, but also to determine what changes may be necessary to ensure success of the project and the institutional arrangements which hopefully will follow after PACD.

In the PVO component, personnel from participating, potential, and non-participating PVOs were interviewed in Kaolack, Dakar and in the field. The non-participating PVOs gave the team insights into why these organizations had declined the opportunity to receive technical assistance and funding to carry out their missions. Village organizations and farmer-members were visited to ascertain what early impact the PVO side of the project has had. CERs, other government technical service personnel, e.g., SODEVA, and the political structure (Governors, Prefets and Sous-prefets) of the Kaolack and Fatick regions were interviewed.

Under the SSE component, small-scale entrepreneurs funded by the project were interviewed throughout the project region to determine the impact that their first loans from the project have had. The project business advisors were interviewed and observed during the course of their work. The evaluation team and Mr. Kandji participated in the May monthly credit committee meeting, at which the business advisors presented and defended entrepreneurs' applications for credit. This provided the means to observe the credit screening process in action.

Finally, eight banks, including the CNCAS, were interviewed in Dakar to ascertain what actions the project would have to take during its final three years to create a clientele of entrepreneurs, sufficiently attractive for a bank to assume as part of its portfolio.

5. Synthesis and Write-up.

Data, impressions, analyses, tentative conclusions and potential recommendations were discussed within the evaluation team to achieve a consensus and to increase the reliability of the team's evaluation. The evaluation responds to the Scope of Work (Annex 2) within a modified framework of the standard AID project evaluation format.

During the course of the fieldwork and write-up period, the team kept close contact with the USAID Project Officer and the Project Development Officer. Each team member took primary responsibility for drafting responses to the scope of work according to his/her specialty and the field work he/she carried out. Each team member reviewed and commented on the work of the others. The individual responses provided the basis for the overall evaluation report. During the last 10 days of the work period, the team met with the National Project Committee to review team findings, conclusions and recommendations.

A week before departure, the team briefed USAID on its findings, conclusions and recommendations. The Chief of Party and MSI's project representative received a similar briefing in Dakar. A draft final report was presented to USAID three days prior to the team's departure, and USAID's suggestions and comments were incorporated in the final report. The final report was edited and printed in Washington after the team's return to the U.S. Within one month from the team's departure, 15 copies of the final report were received by USAID/Senegal.

APPENDIX 4

ORGANIZATIONS AND INDIVIDUALS INTERVIEWED

APPPENDIX 4

ORGANIZATIONS AND INDIVIDUALS INTERVIEWED

1. C & ED Project Personnel

   Transcentury: Louis L. Mitchell
   Bonnie Ricci

   Management Systems International: Janet C. Tuthill

   Entire Project Stakk in Kaolack/Field

2. National Project Committee

   A.B. Sy, President of NPC; Ministry of Plan

   M. Sall, Executive Secretary of NPC; Ministry of Social Development

   P.S. Kandji, Decentralization Secretariat

3. AID/Washington

   Phyllis Dichter - AFR/SWA
   Willy Saulter - AFR/SWA
   Milly Brown - AFR/SWA

4. USDA/OICD

   O. Musu Clemens

5. State Department

   Lannon Walker, Ambassador

6. USAID/Senegal

Sarah Jane Littlefield, Mission Director
George Carner, Deputy Mission Director
Joel Schlesinger, Project Development Officer
William Hammink, Project Development Officer
Amadou Ly, Project Officer
USAID Project Review Committee

7. PVOs

a. CARITAS/Mbour

Degboe Nicolas, Regional Director
Therese Dioh
Etienne Sylvia

b. Africare

Walter Williams, Director-Senegal
Joseph Tavares, Regional Coordinator
Malick Pouye, Project Coordinator

c. OEF/MFR

i. MFR

M. Sarry, Regional Director
Debbie Fredo, Trainer
Moussa MBaye, Monitor
Gdeye Camara, Monitor
K. Toure, Veterinarian Trainer
Margaret Clement, Trainer (MFR/OEF)

ii. OEF

Salwa Levsy, OEF/W Controller

Soukeyna Ba, Director, Senegal

d. PADEC

M. Dia, Coordinator for Birkelane

e. Other PVOs - non-participants

CARITAS/Kaolack - Philippe Bonneval
NCNW - Cheryl Williams Nam
Mrs. NDiaye
CRS - Laverne Pierce
AFVP -Gilbert Labouroux
CONGAD - Thierno Kane
AISA - M. NDiaye
OFADEC - Jean Carbonare
World Relief - Maquette NDiaye
ARAF - Staff
ARAK - Staff
ABACED - Daouda Diop

8. VOs

OEF/MFR	6 VOs
Africare	2 VOs
CARITAS/Mbour	2 VOs
PADEC	1 VO

9. SSEs

Kaolack	7
Fatick	5
Koungheul	5
Sokone	1

10. GOS

Governors of Kaolack and Fatick Regions
Prefets and Sous-Prefets of various departments and communes
CER - Pirkelane
SODEVA - Dakar
NPC - various members

11. Banks - Dakar

BIAO	Mohamadou Diop, Administrateur-Directeur General
BSK	Omar Seck, Directeur General Adjoint
CNCAS	Claude Fauquet, Directeur du Credit
Citibank	Sheena Stuart, Manager Gabriel Fal, Resident Vice President
SOFESEDIT	Mame Diop, Directeur du Credit
SGB	Idrissa Seydi, President
SONABANQUE	Amadou Niang, President-Directeur General
USB	Moustaphe N'Doye, Directeur-Industries

Banks - Kaolack

BCEAO	M. Diop, Directeur
BIAO	Samba N'Doye, Directeur
BNDS	M. Badgi, Directeur
SGB	M. Tall, Directeur du Credit
USB	M. Diop, Directeur

12. Dakar Chamber of Commerce

M. Deme, Training Specialist

APPENDIX 5

QUESTIONNAIRES

- PVO Component
- SSE Component

APPENDIX 5

QUESTIONNAIRE PVO COMPONENT

Person interviewed

Date__________ Place__________

BLOCK ONE Knowledge of Project

Name of project __________ financed by__________

Purpose/s" "
____
____
____

Your contact with project is __________

Is project successful? Yes__________
No__________

Suggestions/Comments

Are you familiar with USAID Rural Health Project Yes__________
No__________

BLOC

TWO - TRAINING

raining received through project: ____________ Date ________

las training useful to you ________
not useful ________
Suggestions/Comments ________

raining for women? When ________

How many ________

Nature of training ________

1.

2.

Is c

3.

a. F

b. F

c. F

for (

at (F

Comme

d. M

Check

X10

BLOCK THREE - MANAGEMENT

1. Communication: frequency ____________ and natura________________

contract with project. Locale________________

2. Primary Project contact person ________________________________

Is communication? ______________________ good

______________________ poor

______________________ other

3. PVO Grant Proposal Process

a. First heard of grant availability in 19 ________ month _________

b. Reaction was positive ______________________

Negative ______________________

other ______________________

c. prepared grant request for ____________________ activity

for (N°) ___________. Village Organization

at (place) __________________

Comments __________________

____

____

Management Unit Staffer

Check - PVO Spec

- Credit Spec

- Trainer

- COP

\\\

ıelped to prepare grant

ˀurposė____________yes____________no

ʔeaction of M.U. to proposal

ʌas________________ Savings__________

____

____

ɘ. Period of time between application and acceptance grant through approval ual system ___________months

Is this too long a delay for you ? Yes________

No _________

Your comments please _______________

____

____

f. In your opinion is grant proposal process for PVOs like yours

too complicated? Yes___,______

No__________

too easy? Yes___________

No__________

It's good for inexperienced PVOs to learn how to write and follow up a grant?

Yes______________

No____ ___________

g. What is the role of the CER in your activity?

3LOCK FOUR

:redit (Use for PVO grant of credit)

a. Have you individually / your PVO / your village organization _____
(circle) received credit?

Yes__________ Date____________ Terms of Credit ______________

loan of CFA_________________ for __________ months

rate of interest________________

repayment status________________

activity being financial__________________

s this an old or new activity? (circle)

Vill your group ask for more credit next year Yes ______

No ______

Can your group manage a credit fund?

Yes________________ No_______________

No: explain____

____

b. Do you individually/your PVO/your VO need specialized business and/or credit management training?

Yes________________

No_________________

Nature_________________

Have you received credit management or business training?
Yes_________________

No__________________

Nature______________ date_______________

Vas it useful? Yes________________

No_________________

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Comments ______________________________

d. (For group managed credit activities) Viability of activity ________
Problems encountered ________

Solutions Sought ________

e. Is activity of being financed replicable? ________ in Senegal

________ in the Sahel

f. Has this group received credit before?

No ________

Yes ________

From ________ history.

OCK FIVE SPATIAL

. In your opinion does the CER/other GOS institutions provide adequate
echnical expertise to the project? ______ yes
______ no

mments and Recommendations: ______

After the project ends in 1990 can the Senegalese institutions continue
eir activities without external assistance? ______ no ______ yes

mments.

What helps or discourages new businesses from starting in this area?
this area? ______

Does the government policy of decentralization have an impact upon small
isinesses?
______ positive impact
______ negative
______ neutral

LOCK SIX PVO

. As a PVO do you believe you can provide more cost efficient services to our beneficiaries than the GOS?

______________yes ______________

ervices?

Why?

). Are your services more flexible/responsive
______________yes ______________no

:. Do you foresee your PVO getting more______________
less______________
no change______________

nvolved with i agricultural production
ii small entreprise development
iii other

|. What do you like best about the AID Project.

:. What do you like least about the AID project?

'/ Your comments please______________________________

____

____

;. Do you feel the Project staff are qualified to assist your organization?
Comments______________________________________

____

). Should the project help more/less/how many______________
PVOs in the Region? In what manner?

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QUESTIONNAIRE POUR LES CONSEILLERS

Nom du Conseiller: ___________________________________

Age: _________________

Niveau d'Education: Bac Univ Ecole Tech Etran Autre

Travail precedent: Commercial Financier Agriculture

Technique Autre _________________

Situation Familliale:

Pourquoi est-ce que vous etes devenu conseiller?

MARCHE

Combien d'entreprises dans votre region:

Artisan

Industriel

Commercial

Transport

Agribusiness

Quelle Pourcentage ont acces a des prets des banques?

Comment est-ce que vous identifier vos clients?

Visites a leur entreprise:

Ils vous trouvent:

Quelles sont les activities economiques principales de la region?

Combien de vos clients sont lies a ces activites? %

CONCEPT DU PROJET

Quelles sortes d'entreprises doivent benificier des prets?

Quelles sortes de projets peuvent benificier des prets?

Quelles restrictions son places sur les conditions des prets? Pourquoi?

Quels resultats cherche le projet par le moyens des prets?

Quel est le but du projet?

TECHNIQUE

Expliquez le role du capital recourant:

Quelle est la difference entre la compte d'exploitation et le fonds de roulement?

Qu'est-ce que c'est qu' une bonne garantie et pourquoi?

Qu'est-ce que c'est-que le bilan et pourquoi est-ce que c'est important?

Quelle doit etre le profit par rapport au remboursement mensuel

Est-ce que c'est toujours constant?

Quelles services est-ce que vous rendez aux entreprises apres qu'ils on percu le pret?

Quelles informations cherchez vous chez les entrepreneurs:

marche

competition

financier

risque du projet

cout de production

DEMARCHES DE TRAVAIL

Combien de jours par mois est-ce que vous etes dans votre zone pour le travail?

Combien de personnes sont venues vous visiter pour demander envers le projet?

Combien de prets est-ce que vous avez effectue?

Quel est le montant total des prets?

Combien d'argent a deja ete rembourse?

Combien de remboursements sont en retard? Pourquoi?

Quels sont les differents projets auquels vous avez fait des prets?

commerciaux

transport

agriculture

artisans

industries

autres

Combien de personnes sont venues avec des propositions serieux?

Combien de dossiers avez vous prepare?

Combien de ces dossiers sont arrives jusqu'a la comite?

Quelle est la raison pour laquelle les autres ne sont pas arrives jusqu'au comite?

Combien de dossiers ont reussi a recevoir des prets?

Pourquoi les autres n'ont pas reussi?

Combien de fois est-ce que vous avez soumis un dossier plus q'une fois au comite?

Pourquoi:

Est-ce qu'il y en a qui ne sont pas realises apres qu'ils ont ete accorde?

Preparation du dossier

Combien de temps est-ce que ca prend pour preparer un dossier?

Decrivez la demarche:

Quels sont les volets d'un dossier

Visites de sensibilization

Temps pour avoir les informations necessaires

Ecriture du dossier meme

Autres

Parmis vos clients, combien ont eu plus qu'un pret?

Est-ce que c'etait pour la meme chose qu'avant? Si oui pourquoi?

Combien de temps est-ce que le deuxieme pret a pris pour evaluer et preparer

Est-ce que vous visitez des entreprises en ville pour voir si vous pouvez leur assister?

Quelles sont les criteres d'un bon projet?

Developpement de l'entreprise

Financiere

Impact

Suivie

Quelle suivie effectuez vous apres que le client a recu le pret?

Qu'est-ce que vous faites pendant ces visites?

Combien de visites par mois?

INFORMATION SUR LES ENTREPRISES

Combien d'entreprises avez des comptes bancaires au moment de l'emprunt?

Combien en ont maintenant?

Qu'est-ce qu'ils font avec?

Combien de vos clients utilisent des systemes internes de gestion?

registres de comptes

registres inventaire

borderau de livraison

Combien de vos entreprises emprunteur sont productives?

commerciales?

transports?

Combien de vos prets sont pour l'investissement productive?

roulement de fonds?

De quelle formation ont besoin les entreprises a lesquelles vo faites des prets?

Quelle formation est-ce que vous livrez a vos clients?

le projet livre a vos clients?

Qu-est-ce qu le projet doit faire de plus?

Est-ce que vous etes content avec la gestion du projet? Pourquoi?

Combien de prets est-ce que vous pensez que vous puissiez gerer en meme temps sans problemes, en tenant compte des visites de sensibilization, suivie, et autres travaux?

Quelles changements seront necessaires pourque vous puissiez doubler le nombre de clients que vous puissiez gerer?

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APPENDIX 6

TARGET ENTERPRISES

APPENDIX 6

Agri-Related SSEs

SSEs to be assisted by the project will be selected from an estimated 1,500 agri-related SSEs in Sine Saloum. These 1,500 are producing goods and services directly supportive of agriculture. Directly supportive SSEs include:

- farm and fishing equipment manufacturers and relevant supply and repair services;
- food processors and makers and repairers of processing equipment;
- buyers, transporters and sellers of produce and fish, and makers and repairers of transportation equipment;
- rural building, fencing, well digging, irrigation, and earth moving contractors;
- charcoal producers; and
- retailers of agri-equipment and supplies.

Described by category of skill and activity, agri-related SSEs include:

- mechanics, blacksmiths, founders, metalworkers, woodworkers and charcoal producers;
- millers, threshers, decorticators, and packers;
- builders, masons, carpenters, electricians, blockmakers, and well diggers;
- truckers and charretteers (operators of animal and human powered wagons);
- boat builders and net [illegible];
- tanners and leatherworkers; [illegible]
- brokers and retailers.

Entrepreneurs such as jewelers, carvers, cloth dyers and printers, tailors, dressmakers, hairdressers, beauticians, restaurateurs, hotel keepers, and sundry retailers generate income, some of which may be invested in agriculture, but will not be considered sufficiently agri-related to be included in the Project's target group.

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APPENDIX 7

SSE RECENT FINANCIAL ACTIVITY

SSE

RECENT FINANCIAL ACTIVITY

From 1st January to 31 March 1987.

Since 1st January, 1987, 33 new small business loans for a total of 44.628.461 F CFA have been approved, by the credit committee.

The breakdown is as follows :

Zone	Number of Loans	Amount CFA
Sokone	4	5.650.000
Fatick	2	2.000.000
Koungheul	6	6.250.000
Kaffrine	3	4.906.000
Kaolack (South)	8	10.945.000
Kaolack (North)	10	14.877.461
	33	44.628.461

These loans are for a variety of types of businesses :

Type	Number of Loans	Amount (CFA)
Poultry	1	3.000.000
Vegetable Production	2	1.850.000
Livestock fattening	4	3.366.000
Fisheries	3	1.350.000
Millet Processing	2	2.000.000
Carpentry	1	250.000
Mechanics and Metal working	2	2.300.000
Restaurant	1	1.500.000
Retail (general)	7	5.570.000
Tailors	2	680.000
Hardware	1	2.500.000
Masonny	4	14.127.461
Transportation	3	5.955.000
TOTAL	33	44.628.461

During this period, also, 24.379.136 CFA was collected in reimbursements. The breakdown is as follows :

Principal repaid : 21.927.544 CFA
Interest repayments : 2.451.592 CFA

NOTE : 9 (nine) loans were completely reimbursed during this period.

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SUMMARY OF FINANCIAL ACTIVITY

From 1st September 1986 to 31 March 1987.

Since the begining activities (September 1986), then, the global picture is as follows :

67 small business loans for a total of 92.289.461 F CFA have been approved by the credit committee.

The breakdown is as follows :

Zone	number of Loans	Amount (CFA)
Sokone	9	10.286.000
Fatick	10	15.550.000
Koungheui	12	14.035.000
Kaffrine	4	7.906.000
Kaolack (South)	14	20.445.000
Kaolack (North)	18	24.067.461
TOTAL	67	92.289.461

These loans are for a variety of types of businesses :

Type	Number of Loans	Amount (CFA)
Poultry	1	3.000.000
Vegetable Production	2	1.850.000
Livestock fattening	8	7.656.000
Fisheries	8	9.286.000
Millet processing	4	4.085.000
Carpentry	2	1.750.000
Mechanics and metal working	5	4.400.000
Restaurant	1	1.500.000
Retail (General)	16	19.900.000
Tailors	3	1.680.000
Hardware	2	4.000.000
Masonny	5	17.127.461
Transportation	5	10.155.000
Rural pharmacies	4	2.900.000
Jewelleries	1	3.000.000
TOTAL	67	92.289.461

During this period, also, 32.416.555 F CFA was collected in reimbursements. The breakdown is as follows :

Principal repaid : 28.967.162 CFA
Interest repayments : 3.449.393 CFA

NOTE : 9 (nine) loans were completely reimbursed.

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APPENDIX 8

BANKERS VERSUS BORROWERS

APPENDIX 8

BANKERS VERSUS BORROWERS

Formal Banking Versus Informal Banking

Many real and potential project clients could use the banking system. Why do they choose the project? What are the factors which limit the use of formal lending and cause the project clients to prefer the use of a project loan, even though the cost is greater than at the bank? Additionally, why don't the banks service this large, untapped market of clients?

Entrepreneurs often do not even attempt to use banks in Senegal for a variety of reasons:

- o The banks require that borrowers have an account with the bank for at least six months prior to the loan and a steady working income which passes through the bank.
- o The cost of maintaining a bank account (the AGIOs plus fees) amounts to over 4000 CFA per quarter, for even the smallest deposits. This cost is a "mental block" for many to work with the banks.
- o Rural based banks (i.e. Kaolack) are very slow to process loans and are restricted on the loan size they can provide without senior level approval from Dakar. Loans under 100,000 CFA can be approved locally with a delay of only 3 weeks, but any loan over that amount must go to Dakar and will take at least 6 weeks.

For entrepreneurs outside Kaolack or Fatick, the banks are very inconvenient. They must travel to the banks to use their services. This can be very expensive requiring several trips, given the slowness of the banks.

Most entrepreneurs do not understand how banks operate, how they charge their interest, and what goes into the fees which the entrepreneurs are charged. Banks either do not, or cannot, clearly explain the interest and fee charges. This makes the entrepreneurs suspicious. In addition, entrepreneurs generally receive poor treatment from the banks, compounding their dislike for the banks.

In their general misunderstanding of the banking system, the way interest rates are calculated, and the potential uses for credit, many entrepreneurs are scared away and do not even attempt to get loans. Many very productive entrepreneurs need exposure to the productive purposes of credit.

The first loan can be very expensive, between opening a bank account, paying the fees, making the multiple visits, the slow process, getting an officially notarized guarantee (which will cost over 100,000 CFA for a 3 million CFA collateral -- paid up front), and insurance. The expense and difficulties involved are great enough to drive many people away.

A loan request to a bank requires the preparation of the project, accounting records, and internal management systems. Entrepreneurs usually do not have the systems and the project preparation is very expensive to have prepared by an outside party (preparation of a good loan request can cost 600,000 CFA).

Reasons Why the Banks Are Not Entering the Market

Risk

This environment is very poorly understood by the banks. They do not know the clients nor do they understand their businesses. As long as the information level and understanding are low, the risk of getting involved in the operation is high. Many of the banks in Senegal have tried to break into the market, and have been seriously burned (there are two billion CFA in uncollected bad debts to small borrowers, resulting mainly from agricultural campaigns). Risk can be lowered through knowledge of the clients business and a good feel for his character (the reason banks require bank accounts for six months before they will lend to a client). The risk of default is a very important consideration for many banks, because the losses on one default (100% of the principal) require the profits from 30-50 good loans (depending on the profitability) to breakeven.

Cost

To lower the level of risk requires a close study of the proposals, as does the SBAU. This is a very expensive process requiring intensive use of skilled labor to elaborate the systems for evaluating loans, visits to the field to meet the entrepreneur, to understand his project, and to understand his motivations. The costs involved in this research procedure to develop the knowledge and systems are considerable. The 5% premium which the BCEAO allows on their discounted rate is not great enough to cover the expense this evaluation process requires, especially considering the meager profits to be earned from such small loans. As long as the 5% cap is kept on lending rates, it is certain that loans to small entrepreneurs will remain scarce.

Centralized Systems

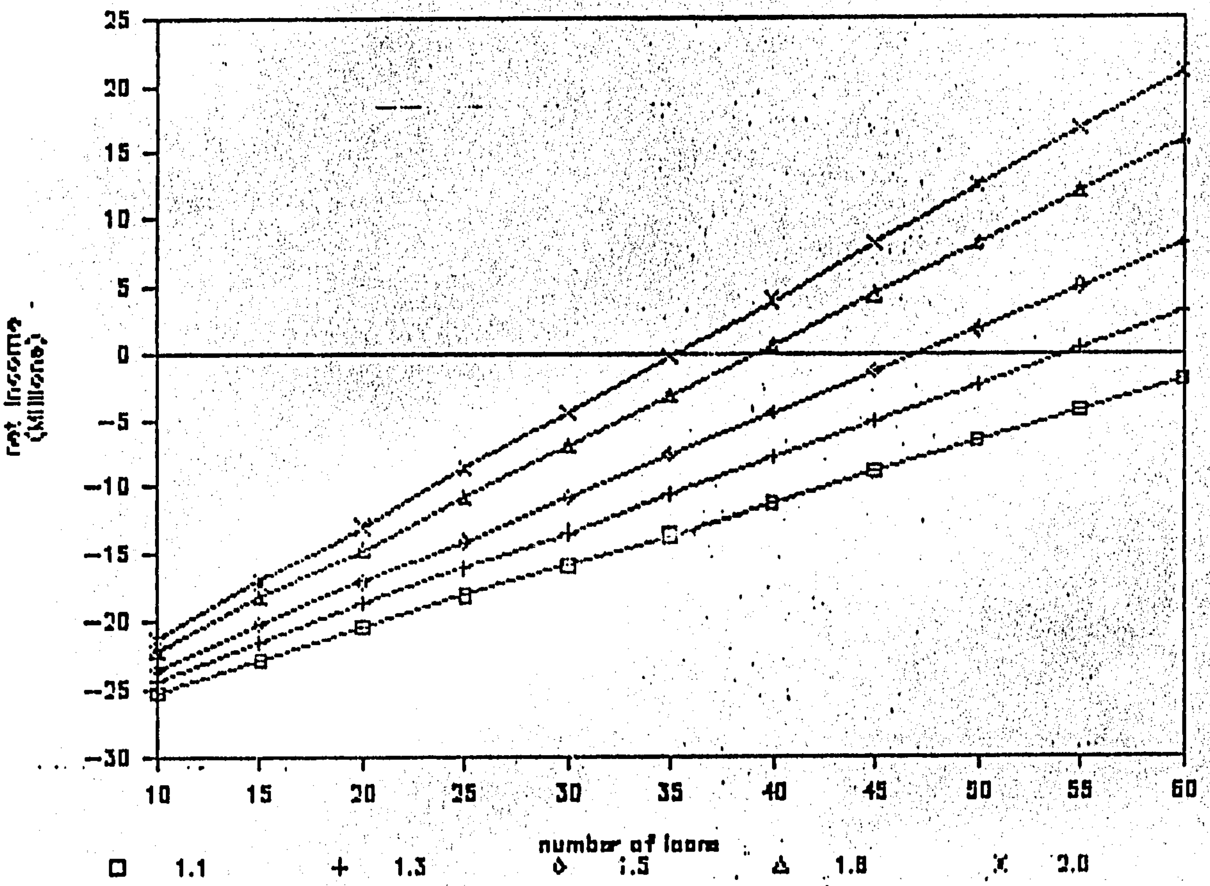
The overall poor management ability of the bank branches, reflected in the low loan ceiling approval level given to branch managers, increases the cost to the banks of processing loans from small clients. To send applications to Dakar for small loans is not cost effective. As long as small loans cannot be approved at the local level, where knowledge of the client is greatest, they will not be profitable.

These two sets of factors surrounding why the people who need the money don't go to the banks and why the banks won't lend to the people who have bankable projects, combine to create a large, untapped market which the project is geared to serve. By preparing itself to serve the target group, the project has also developed the systems which will allow it to profitably serve the other entrepreneurs who fall outside of the specific target group and yet who still have viable projects which need financing.

Note: It is interesting to note that though a large market exists in the rural areas, many banks in Senegal are shifting away from loans to the small client toward lending to corporate clients only (BIAO, Citibank, BCCI). At the same time these banks would like to be able to draw on the savings in the rural sector to provide them with low cost funds to lend to the corporate sector. The BIAO, for example, is extending a savings drive into selected rural areas with some success, even though it offers no services in return to the savers.

APPENDIX 9

PROFITABILITY OF THE LOAN PORTFOLIO



The majority of the cost of servicing a loan is at the beginning, in the loan appraisal and evaluation phase. The shorter the loan duration the more times these initial costs must be incurred, lowering profitability. Average loan duration is presently 9 months.

For the project to reach profitability, 9 months would be an acceptable length of time. Even though a longer average length of loan would reduce costs, and increase profitability, it must be balanced with the greater risk involved with lending to longer term projects. As the length of the loan extends, the range of uncertainty also extends. It is more difficult to predict economic conditions two years from now than it is to predict them one year from now. It is also more difficult for a small entrepreneur to estimate his cash flow and earnings stream over more than one year. The one year limit may be restrictive for some entrepreneurs, but it is sound banking policy in the small enterprise domain.

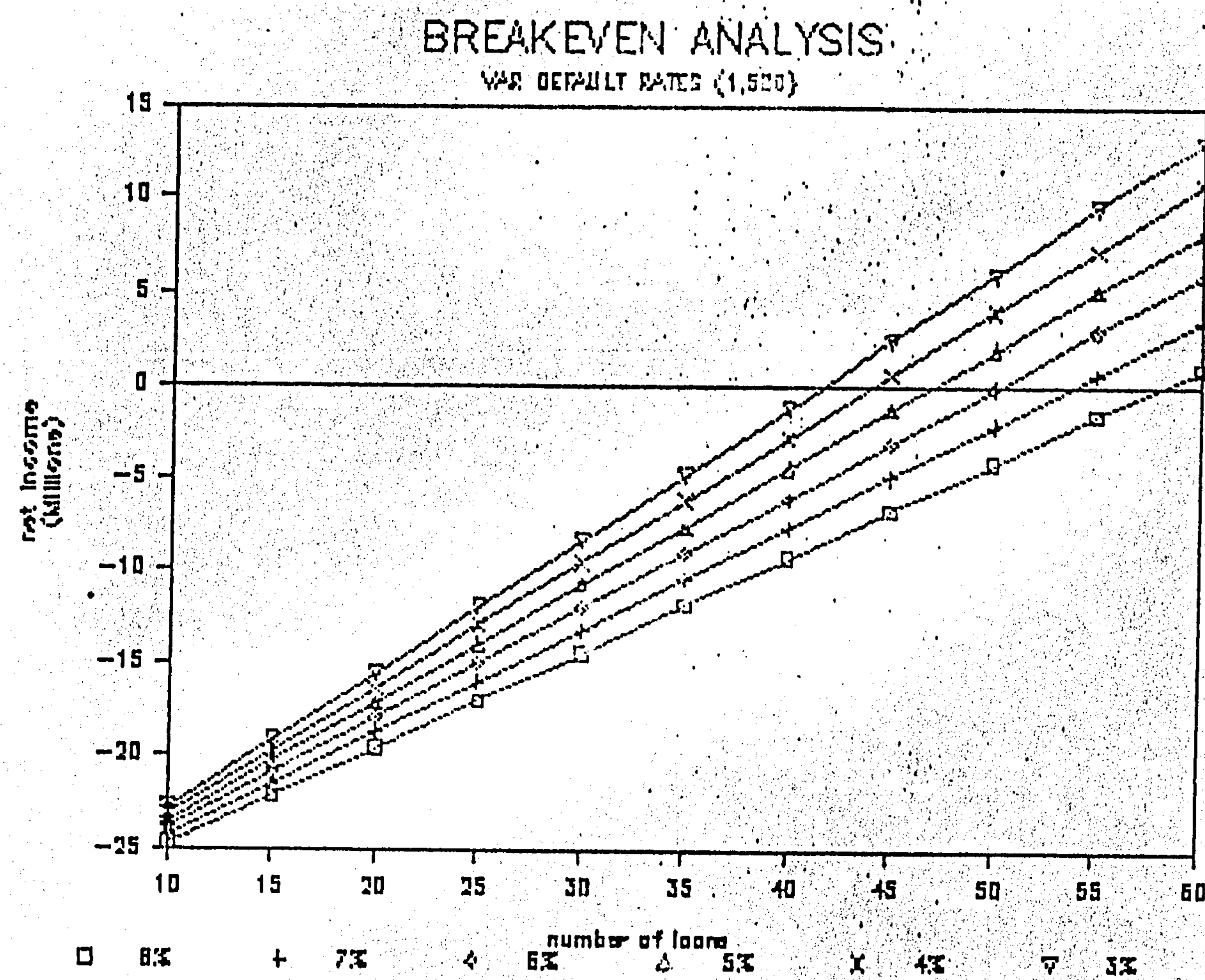
Though the project has not been lending funds for a year, and their schedule has been interrupted by other activities, five agents have accounted for 76 loans in eight months (or 91 in 9 months including the month of May). This comes to an annual average of 24 loans per advisor. The advisors are still in the learning phase of their jobs, perfecting their skills, learning about their environment, and getting to know their customers and their "market", so this figure will increase with time.

An average of 24 loans per agent for the first year is acceptable, but will need to be more than doubled by the end of the project if the SBAU is to become profitable. Given the time required to elaborate a dossier, discussed above, and the required follow-up on active loans, the advisors believe that they can process five to six new dossiers per month, which will probably lead to 4-5 new loans per month. This will be a function of improved training of the advisors, the number of repeat loans, and the overall demand for credit by the target group. The "bottom line" of the income statement, net income before taxes, has been arranged to demonstrate the significant impact an increase in the number of loans outstanding that an agent has at any one time on profits. Advisors will need to generate 55-60 loans per year, or 40 active loans at any one time per advisor.

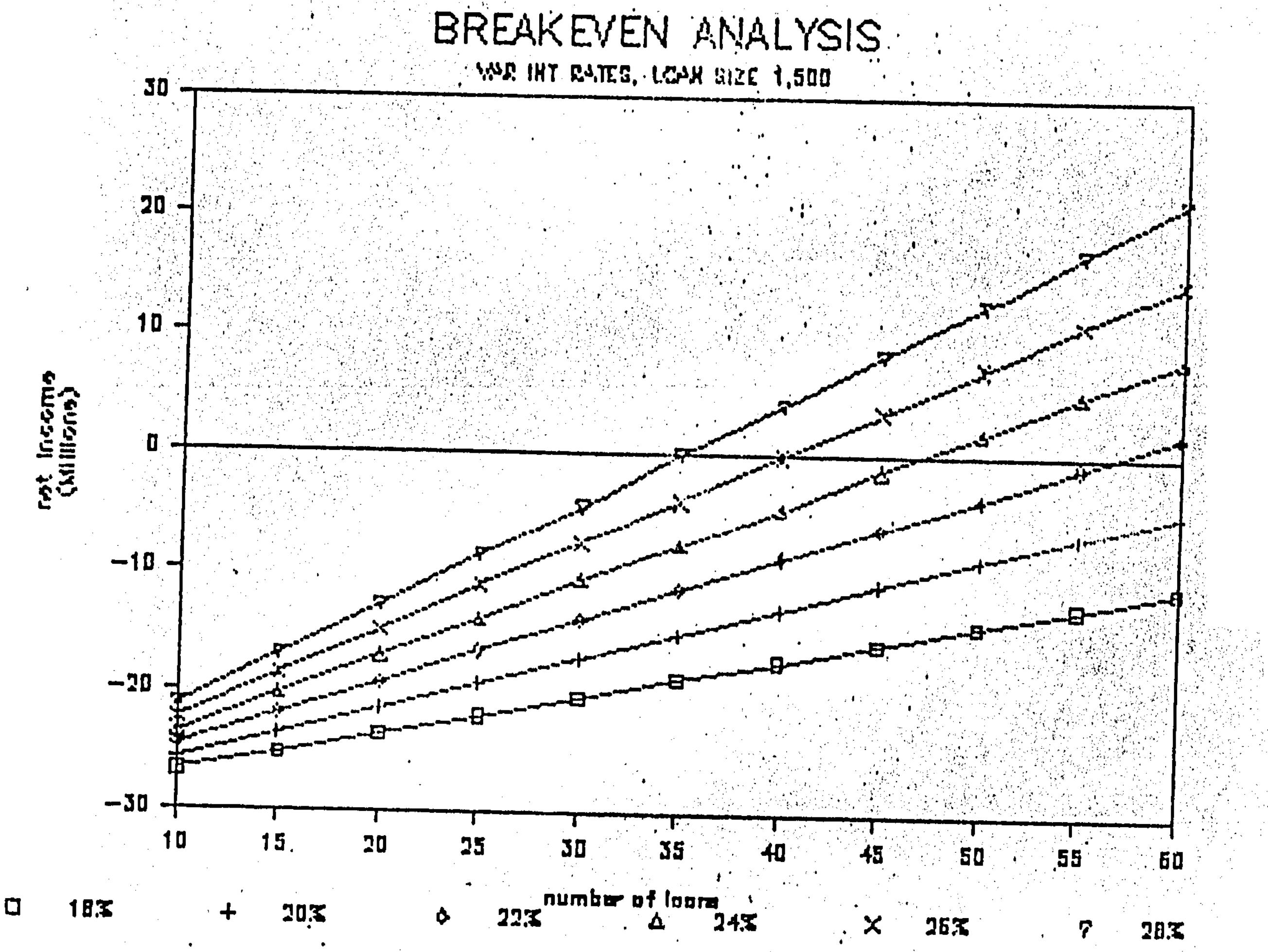
Portfolio quality to date is excellent. There have been no defaults, ten of the entrepreneurs have reimbursed in full (five of them early), 61 of the 70 remaining outstanding loans are being reimbursed on time and five are early on their payments. Of the four late payments, all are making some kind of monthly payment, but smaller than originally expected due to changes in their earning streams. Two of the four loans have been rescheduled and the other two will be rescheduled soon.

With no defaults and only 2.4% of the outstanding portfolio in late payments, the quality of the portfolio is excellent. Considering general experiences with lending to small borrowers, any figures above 85% repayment are considered to be excellent (Goldmark and Rosengard, A Manual to Evaluate Small-Scale Enterprise Development Projects). In the model a 5% default rate has been used, because this will certainly be more representative in the life of the project, especially as the number of loans made increases by 250%.

The graph below shows the profit sensitivity as the default rate increases. It is important to note that if the default rate reaches 8%, then with an average loan size of 1.5 million CFA it takes 57 loans outstanding at any one time (or a total of 76 loans/year) to breakeven.



Interest rates are not characteristics of the loan portfolio, but are very important in the profitability function. The following graph definitely shows that interest rates of 18% and 20% will never breakeven in our base case, given the characteristics of the SBA unit. Even a 22% interest rate will require an average of 57 outstanding loans per advisor to breakeven. Only at 24% does the SBA unit actually begin to have hopes of profitability. Therefore, the 24% interest rate cannot be lowered and should, if possible, be raised through contract arrangements..



Other characteristics of the loan portfolio which reflect the developmental impact of the loans are the loan size to pre-loan balance sheet ratio, the use of funds (for working capital or fixed investment), and the rural urban mix in the portfolio.

Debt/Equity mix. The relationship between size of the companies receiving loans versus their ability to use extra funds is demonstrated by the ratio of their equity invested in the enterprise and the size of the loan requested. It is difficult to strictly identify equity in these small enterprises, so the total on the balance sheet has been used (very few of the enterprises have any outstanding debts). Nearly a 50% (37 out of 80) were borrowing sums valued at between 100% and 50% of their total figures on the balance sheet. Very few were borrowing less than 10% of the value on the balance sheet. Therefore small firms can make effective use of large sums of money, relative to the overall size of the company.

Use of the funds. To determine the impact, it is interesting to know whether funds are being used simply to maximize existing production capabilities, or to create new, production increasing, situations. From the central files of the project in Kaolack (based on the 80 loans as of May 15) 12 loans had been for fixed investments (15.7 million CFA), 67 had been for working capital (84.6 million CFA), and one had been for both (3 million CFA). From interviews with the five advisors, however, 16 of their loans have been for fixed investments. Therefore there is a large base of excess, productive fixed investment in the Sine Saloum, needing simply the capital to take advantage of it.

Rural/Urban mix. Rural loans are more costly and difficult to make as they are more difficult to reach, verify, and provide with follow-up. At present 75% of the loans are for urban borrowers, with 25% for rural projects. This is natural since there are both more enterprises in the urban areas (with adequate markets for there goods and services) and better information about the project.

Impact on women. The fund has made only eight loans to women. These are primarily in the domains which are traditional to women, involving small commerce, sale of cloth and clothing manufacture. One loan to a woman is for the purchase of a pirogue and motor for fishing, but she is primarily coordinating the loan for her family.

It is difficult for women to get loans because, under Senegalese law they have no property of their own if they are married -- everything belongs to her husband. Therefore they are effectively excluded from the bankable class of entrepreneurs.

Increasing the volume of activity to reach a profitable level will require an influx of capital. The cash-flow calculations showing the source (original $450,000 or 135 million CFA, plus interest reflows) of funds and the use (increasing the amount of loans outstanding) of funds in Appendix -- point to the up-coming shortfall in capital to be loaned out, 25 million CFA by June 1989 and a total of 104 million CFA by the end of the project. These are based on reaching breakeven in June 1989 and profitability in 1990. Should these goals be delayed, the needs for funds will be lower.

:COMPONENT: FINANCIAL PLANNING

TRIBUTION INCOME	AVG LOAN SIZE 1,800,000	No OF AGENTS	6	CENTRAL	18,439,00
TEMENT AT VARIOUS	i RATE 24.00%	VAR COSTS	1,896,000		
BERS OF LOANS MADE	i EXP 6.00%	AG PEN	18.00%		
	AVG O/S 60.00%	MGT PEN	4.50%		
	DEFAULT 5.00%	AG BONUS	2.00%		
		MGT BONUS	0.50%		

# LOANS MADE/AGENT	10	15	20	25	30	35	40	45	5
TEREST INCOME	15,552,000	23,328,000	31,104,000	38,880,000	46,656,000	54,432,000	62,208,000	69,984,000	77,760,00
TEREST EXPENSE	(3,888,000)	(5,832,000)	(7,776,000)	(9,720,000)	(11,664,000)	(13,608,000)	(15,552,000)	(17,496,000)	(19,440,00
T INTEREST INC	11,664,000	17,496,000	23,328,000	29,160,000	34,992,000	40,824,000	46,656,000	52,488,000	58,320,00
RIABLE COSTS	(11,376,000)	(11,376,000)	(11,376,000)	(11,376,000)	(11,376,000)	(11,376,000)	(11,376,000)	(11,376,000)	(11,376,00
& MGT BONUS	(1,539,000)	(2,308,500)	(3,078,000)	(3,847,500)	(4,617,000)	(5,386,500)	(6,156,000)	(6,925,500)	(7,695,00
AN LOSS PENALTIES	729,000	1,093,500	1,458,000	1,822,500	2,187,000	2,551,500	2,916,000	3,280,500	3,645,00
ET BONUS	(810,000)	(1,215,000)	(1,620,000)	(2,025,000)	(2,430,000)	(2,835,000)	(3,240,000)	(3,645,000)	(4,050,00
TED CENTR OFF	(18,439,000)	(18,439,000)	(18,439,000)	(18,439,000)	(18,439,000)	(18,439,000)	(18,439,000)	(18,439,000)	(18,439,00
PERATING INC	(18,961,000)	(13,534,000)	(8,107,000)	(2,680,000)	2,747,000	8,174,000	13,601,000	19,028,000	24,455,00
OVISION LOAN LOSS	(3,240,000)	(4,860,000)	(6,480,000)	(8,100,000)	(9,720,000)	(11,340,000)	(12,960,000)	(14,580,000)	(16,200,00
ET INCOME	(22,201,000)	(18,394,000)	(14,587,000)	(10,780,000)	(6,973,000)	(3,166,000)	641,000	4,448,000	8,255,00
OFIT(LOSS)/AGENT	(3,700,167)	(3,065,667)	(2,431,167)	(1,796,667)	(1,162,167)	(527,667)	106,833	741,333	1,375,83
RGINAL REVENUE/LOAN	21,150	21,150	21,150	21,150	21,150	21,150	21,150	21,150	21,15

planation of assumptions:
AVG O/S: refers to the average amount of principal outstanding per loan.
i EXP: refers to the cost of money from the BCEAO at the preferential rate.
DEFAULT: refers to the percentage of bad loans.
No OF AGENTS: refers to the # of advisors active in the field.
VAR COSTS: is the cost per advisor in the field
AG PEN: refers to the penalty applied to each advisor for bad loans made
MGT PEN: refers to the penalty applied to management for each bad loan made
AG BONUS: refers to the bonus paid to each advisor for loans fully repaid
MGT BONUS: refers to the bonus paid to management for loans fully repaid
CENTRAL: refers to the cost of running the head office: salaries plus office

pecific calculations for items included in variable costs and central costs are on next page

FIXED OPERATING COSTS

PER BUSINESS AGENT/RECURRENT

SALARY	1,416,000
OFFICE RENTAL	240,000
TRANSPORT	120,000
UTILITIES	60,000
OFFICE SUPPLIES	60,000
	==============
TOTAL	1,896,000

CENTRAL OFFICE STAFF/RECURRENT

SALARIES	14,604,000
OFFICE RENTAL	1,600,000
OFFICE SUPPLIES	300,000
MAINT./INS.	825,000
UTILITIES/TEL/POST	360,000
COMPUTER MAINT	750,000
	==============
	18,439,000

APPENDIX 10

PROFILE DU PORTEFEUILLE

APPENDIX 10

PROFILE DU PORTEFEUILLE

Entreprises productives			
Agribusiness:		25	
Artisan/Industriel		23	
Entreprises commerciales:		24	
Entreprises services:		8	
		number	value
Combien de prets pour accroitre le roulement de fonds?		67	84,633,011 cfa
Combien de prets pour les investissements fixes (productives)?		12	15,721,000 cfa
Taille des prets: (000)	0-499:	12	3,030,000 cfa
	500-999:	25	14,560,000 cfa
	1000-1999:	25	34,646,000 cfa
	2000-3000	18	51,118,011 cfa
Combien de prets en repitition:		4	
Distribution des prets:			
	rural:	20	
	urbain:	60	

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Relation entre l'actif et le pret:	1-2:1	37
	3-5:1	25
	6-8:1	8
	9-10:1	4
	>10:1	6

Comptes bancaires au moment de l'emprunt:		30
Comptes bancaires maintenant:		31
Duree du pret:	0-3 mois	7
	4-6 mois	27
	7-9 mois	4
	10-12 mois	42
Duree moyenne d'un pret:	9 mois	

QUALITE DU PORTFOLIO
REMBOURSEMENT DES PRETS:

A temps:		61
En avance:		5
En retard:		
No. de mois:	1	
	2	4
	3	
Echouee: % impayce		0
Remb. complet en avance:		5
Remb complet a temps:		5

Valeur total des remboursements	40,411,469 cfa
Valeur total de ce qui devait etre rembourse	42,156,546 cfa
Valeur de tout les prets en retard:	1,745,077 cfa
Valeur total du portfolio en instance:	72,426,600 cfa

APPENDIX 11

EXPLANATION OF CASH FLOW ANALYSIS AND FUNDS REQUIREMENTS FOR SBAU

APPENDIX 11

EXPLANATION OF CASH FLOW ANALYSIS AND FUNDS REQUIREMENTS FOR SBAU

This funds requirement analysis is based on the SBAU achieving a breakeven status by June 1989 and having a profitable year in 1990. The analysis highlights the funds shortfall beginning in the middle of FY 1988 (January 1988) which must be rectified if the project is to achieve a profitable state. A total of 104 million CFA will need to be injected into the revolving credit fund over the next 3 years if the project is to meet its objective.

The funds requirement analysis on the following page is based on the following criteria:

Sources of Funds:

- The project began with a fund of 135,000,000 CFA ($450,000) and will have reflows from interest payments.

Uses of Funds:

- The major use of funds is to build up the outstanding loans. This reflects only the actual principal that remains unpaid on loans made at that time. On an annual basis, the loans outstanding are reflected at the end of the fiscal year. Use (source) of funds will be the increase in loans outstanding between two fiscal years.

- The second major use of funds is the reserve for bad loans, calculated at 5% of average loans outstanding. The reserve for bad loans takes into consideration the amount advisors are penalized for a bad loan.

- To calculate the average amount of unpaid principal on a yearly basis, the number of loans/advisor/year is averaged over the year period. This is multiplied by average loan size times the average length of a loan times the expected percentage of the loan amount outstanding at any one time. The first three are listed in the assumptions.

- The % of loan amount outstanding at any point in time will vary. During the first four years, when the project is increasing its portfolio, a greater % of the loan amounts will be outstanding. As the portfolio levels off, the average amount of principal outstanding will drop. During the growth phase of the project, 70% was used as the amount for principal outstanding on a loan at any time. After it levels off, 60% has been used as the average amount of loan outstanding on a diminishing balance repayment schedule. This accounts for the drop in loans outstanding between June 1990 and 1991, even though total funds loaned during the period remained the same.

FLOW OF FUNDS DURING THE LIFE OF PROJECT FOR REVOLVING CREDIT FUND

(CFA 000)

		June 1987	June 1988	June 1989	June 1990	1991	1992
total funds loaned/period		156,000	360,000	561,000	702,000	702,000	702,000
loans outstanding end of FY		81,900	189,000	294,525	368,550	315,900	315,900
avg loans outstanding		40,950	141,750	254,363	340,200	315,900	315,900
interest received		8,170	23,763	53,416	71,442	66,339	66,339
reserve for bad loans		2,989	6,899	10,750	13,452	11,530	11,530
net interest reflows		5,180	22,869	42,666	57,990	54,809	54,809
net change in loans outstanding		(81,900)	(107,100)	(105,525)	(74,025)	52,650	0
ending balance	135,000	58,280	(25,951)	(88,810)	(104,845)	2,614	57,422

ASSUMPTIONS						
avg # loans/agent	20	40	55	65	65	65
avg size of loan	1,300	1,500	1,700	1,800	1,800	1,800
number of agents	6	6	6	6	6	6
avg length of loan (year)	0.75	0.75	0.75	0.75	0.75	0.75
funds lost to bad debt	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
interest	24%	24%	24%	24%	24%	24%

During the life of the project, while loans are increasing, it is assumed that 70% of principal will be outstanding on each loan. As the fund stabilizes, it will drop to 60%. The ending balance above reflects the net position of the fund at the end of the FY, assumed to June 30. The starting balance of 135 million CFA equals the $450,000 credit.

Reserve for bad loans is minus the amount the advisors are penalized for bad loans made, and the interest calculated has already substracted the bonus to the advisors of 3%

APPENDIX 12

ANALYSIS OF THE START YOUR OWN BUSINESS PROPOSAL

APPENDIX 12

ANALYSIS OF THE START YOUR OWN BUSINESS PROPOSAL

Proposal

The management unit is proposing to implement a "Start Your Own Business" program in the SSE component. The program has been developed by MSI based on their experience in several other African countries. The program consists of three major elements:

1) identifying individuals with entrepreneurial qualities by rating them on their responses to a questionnaire prepared in the U.S.;

2) providing them with a two week training course on the "qualities of an entrepreneur" and the basic managerial skills required to start a new venture; and

3) providing technical, and some financial, assistance to help the participants to prepare business plans and start projects.

The principal rationale for the program is to bring an active new business development element to the SSE component and to further pursue opportunities to stimulate private sector development.

It is expected that at the end of the program, five groups of 25 participants will have received training, 75 new business plans will be developed, 45 businesses will actually have been started, 25 improved or innovative business and management practices will be used, and that 40 of the businesses will last more than 12 months.

The resources required to run the program will include one specialist at 300,000 CFA per month for 36 months (10.8 million CFA) and about 2.1 million CFA per course, including 10,000 CFA per participant contribution. In addition the program would require a 6 million CFA grant fund, and a special loan fund of 30 million CFA (to be kept separate from the regular SSE credit fund).

Situation to Date

The project implemented the first SYOB seminar in December of 1986, based on the MSI program elaborated for other countries. 19 "entrepreneurs" took part plus all the advisors. Four months after the seminar, only two projects have been started, both by women. Both are still in operation and doing well. Six others have submitted business plans.

At the end of the seminar, the following conclusions were reached by the SSE component staff:

- The teaching materials used were not properly adapted to the case of Senegalese entrepreneurs and were inappropriate. These have since been adapted to include appropriate Senegalese case studies.

- The 19 "entrepreneurs" selected were not as entrepreneurial as expected. The "entrepreneur" detecting questionnaire was tried on someone the trainers considered to be a real entrepreneur" and he scored very poorly. The SSE component staff is now wary of the questionnaire.

- A full time advisor is needed to work with the participants after the course to provide them with the technical assistance needed to prepare a sound business plan.

- Funding for start-ups is so difficult to come by, that funds must be provided to help the "entrepreneurs" get started or there will be very few entrepreneurs really able to make use of their natural ability and the training.

Issues in Favor of Starting the Program:

1) The marginal cost of implementing the program from this point forward is quite low. Most of the research and development for the seminar teaching materials has been completed by the trainer. A body of knowledge now exists which can therefore be exploited at little cost: The cost per trainee would be about 300,000 CFA and the cost per business started about 640,000 CFA. This is close to the amount the project will have spent at PACD to simply provide loans to the entrepreneurs.

2) The activity has forward momentum right now. The trainer is still here and has selected most of the participants for the next seminar.

3) It will be a pro-active arm of the SSE component and may lead to new innovations and stimulate activity in the private sector.

4) Starting the program now will allow for an "incubation" period for the new enterprises to be conceived, planned and implemented. It will be difficult to evaluate the results of the program in less than two years, and if it isn't started soon, the complete cycle of the program cannot be completed before the EOP.

Issues Against the Program

1) The management of the SYOB program is very labor intensive. The program requires a full time manager to select the participants for the seminars and to provide the follow-up technical assistance to the seminar graduates. To select the 25 participants for the upcoming seminar, the training specialist has had to sift through four hundred applications and interviewed over fifty participants (using the questionnaire).

2) The human resources are scarce. The project has been trying to hire a qualified Senegalese supervisor to manage the component. It is having difficulty finding one due to the lack of security in the position (it will be for only three years). Even after he is selected he will require a fair amount of follow-up and training by the specialists already in the SSE component. The training specialist, who has been handling the program to date, is supposed to leave in July, and will not be able to provide the on the job training and supervision necessary.

   The SSE specialist is fully occupied at present with the training and implementation of the core element of the SSE component, and his time will become very precious as he tries to get his advisors to double their output over the next year. He will not be able to manage the program, and probably won't have the time to manage and train the SYOB supervisor they would hire.

3) It has been difficult to find qualified participants. As witnessed by the first program, which had only 19 instead of the expected 25 participants, it is difficult to find "entrepreneurial" individuals to participate. It is possible that most of the entrepreneurial types have left the Sine Saloum region already. Those with the get up and go necessary have already gotten up and gone to Dakar where there are far more possibilities for starting projects. One hope would be to draw some of those people back to Sine Saloum with the lure of the program.

4) Additional financial resources will be required. Since the problem of financing has been identified as a critical problem to the start-up of small enterprises, the project wants to put 36 million CFA into the project. The SSE component already needs 100 million CFA in extra capital to make sure that the core component, the revolving credit fund is self-sustaining at the end of the project. These funds will have to come from the PVO grant component of the project. To create another 36 million CFA will be very difficult.

Conclusions and Recommendation

The SSE component does not have the resources, either human or financial at the present to pursue this new program. However the benefits could be signinficant at little cost.

It is recommended that the SSE component not pursue the SYOB program at present for the following reasons:

a. The SSE specialist has a full time job to bring the main part of the program up to the point where it will be a success, and it is not worth risking the success of the main project for another experiment.

b. By splitting the attention of the SSE Specialist, the SYOB program would not get the attention it requires to really test its assumptions.

c. The SSE Specialist may be leaving in one year and would not have the time to properly focus on the start-up and follow-up to the program. This will create a void in the main program, not to mention any side activities, such as the SYOL.

APPENDIX 13

PVO BUDGETS

APPENDIX 13

PVO BUDGETS

CARITAS BUDGET

	YEAR 1	%	YEAR 2	%	YEAR 3	%	YEAR 4	%	TOTAL	%
INVESTMENT										
equipment	4,850,000	4.6%		0.0%		0.0%		0.0%	4,850,000	4.6%
infrastructure	1,500,000	1.4%		0.0%		0.0%		0.0%	1,500,000	1.4%
sub total	6,350,000	6.0%		0.0%		0.0%		0.0%	6,350,000	6.0%
OPERATIONS										
salary and benefits	4,559,360	4.3%	4,559,360	4.3%	4,559,360	4.3%	4,559,360	4.3%	18,237,440	17.1%
office maint.	1,225,000	1.2%	1,225,000	1.2%	1,225,000	1.2%	1,225,000	1.2%	4,900,000	4.6%
veh. gas and maint	1,100,000	1.0%	1,100,000	1.0%	1,100,000	1.0%	1,100,000	1.0%	4,400,000	4.1%
misc.	700,000	0.7%	700,000	0.7%	700,000	0.7%	700,000	0.7%	2,800,000	2.6%
sub total	7,584,360	7.1%	7,584,360	7.1%	7,584,360	7.1%	7,534,360	7.1%	30,337,440	28.5%
TRAINING										
village	2,000,000	1.9%	3,200,000	3.0%	3,000,000	2.8%	3,000,000	2.8%	11,200,000	10.5%
pvo	5,000,000								5,000,000	4.7%
	7,000,000		3,200,000		3,000,000		3,000,000		16,200,000	15.2%
INDIRECT COSTS	3,752,623	3.5%	3,752,623	3.5%	3,752,623	3.5%	3,752,623	3.5%	15,010,492	14.1%
CREDIT	35,470,225	33.3%		0.0%		0.0%		0.0%	35,470,225	33.3%
GRANTS										
reforest	3,000,000	2.8%		0.0%		0.0%		0.0%	3,000,000	2.8%
TOTAL COSTS	63,157,208	59.4%	14,536,983	13.7%	14,336,983	13.5%	14,336,983	13.5%	106,368,157	100.0%
PVO CONTRIBUTION	24,299,334								24,299,334	22.8%
VO CONTRIBUTION	9,730,723								9,730,723	9.1%
									0	
									0	
									0	

OEF/MFR BUDGET

	YEAR 1		YEAR 2		YEAR 3		TOTAL	
INVESTMENT								
equipment	8,960,000	7.2%	1,075,000	0.9%		0.0%	10,035,000	8.0%
infrastructure		0.0%	4,500,000	3.6%		0.0%	4,500,000	3.6%
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subtotal	8,960,000	7.2%	5,575,000	4.5%	0	0.0%	14,535,000	11.6%
OPERATIONS	15,905,307	12.7%	14,396,242	11.5%	8,870,309	7.1%	39,171,858	31.3%
TR. OF TRAINERS	17,972,441	14.4%	11,110,941	8.9%	4,529,868	3.6%	33,613,250	26.9%
VILLAGE TRAINING	3,130,227	2.5%	3,130,227	2.5%	3,130,228	2.5%	9,390,682	7.5%
CREDIT SUBGRANTS								
short term	26,431,646	21.2%		0.0%		0.0%	26,431,646	21.2%
long term	1,818,380	1.5%		0.0%		0.0%	1,818,380	1.5%
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subtotal	28,250,026	22.6%		0.0%		0.0%	28,250,026	22.6%
TOTAL DIRECT COSTS	74,218,001	59.4%	34,212,410	27.4%	16,530,405	13.2%	124,960,816	100.0%

PADEC BUDGET

	YEAR 1		YEAR 2		YEAR 3		TOTALS	PERCENT
INVESTMENT								
office equip	1,000,000	1.5%		0.0%		0.0%	1,000,000	1.5%
vehicles	3,325,000	4.9%		0.0%		0.0%	3,325,000	4.9%
	4,325,000	6.4%		0.0%		0.0%	4,325,000	6.4%
OPERATIONS								
Antenna								
salaries/field	2,880,000	4.3%	3,052,800	4.5%	3,235,968	4.8%	9,168,768	13.6%
social charges	576,000	0.9%	610,560	0.9%	647,194	1.0%	1,833,754	2.7%
guard	480,000	0.7%	480,000	0.7%	480,000	0.7%	1,440,000	2.1%
rent	480,000	0.7%	480,000	0.7%	480,000	0.7%	1,440,000	2.1%
office supplies	166,667	0.2%	166,667	0.2%	166,667	0.2%	500,000	0.7%
misc	1,865,633	2.8%	1,865,633	2.8%	1,865,633	2.8%	5,596,900	8.3%
	6,448,300	9.5%	6,655,660	9.9%	6,875,462	10.2%	19,979,422	29.6%
Dakar								
salaries/HO	600,000	0.9%	600,000	0.9%	600,000	0.9%	1,800,000	2.7%
social charges	120,000	0.2%	120,000	0.2%	120,000	0.2%	360,000	
misc	852,000	1.3%	852,000	1.3%	852,000	1.3%	2,556,000	3.8%
subtotal	1,572,000	2.3%	1,572,000	2.3%	1,572,000	2.3%	4,716,000	7.0%
TRAINING								
equipment	650,000	1.0%		0.0%		0.0%	650,000	1.0%
tr. of tr.	3,000,000	4.4%		0.0%		0.0%	3,000,000	4.4%
train pop.	1,166,667	1.7%	1,166,667	1.7%	1,166,667	1.7%	3,500,000	5.2%
subtotal	4,816,667	7.1%	1,166,667	1.7%	1,166,667	1.7%	7,150,000	10.6%
Total Support	17,161,967	25.4%	9,394,327	13.9%	9,614,128	14.2%	36,170,422	53.5%
CREDIT AND GRANTS								
credits	4,500,586	6.7%	6,045,000	8.9%	6,045,000	8.9%	16,590,586	24.6%
grants	8,658,031	12.8%		0.0%		0.0%	8,658,031	12.8%
	13,158,617	19.5%	6,045,000	8.9%	6,045,000	8.9%	25,248,617	37.4%
TOTAL	30,320,584	44.9%	15,439,327	22.9%	15,659,128	23.2%	61,419,039	90.9%
OVERHEAD	3,032,058	4.5%	1,543,933	2.3%	1,565,913	2.3%	6,141,904	9.1%
	33,352,642	49.4%	16,983,259	25.1%	17,225,041	25.5%	67,560,942	100.0%

DEVELOPPEMENT DES COLLECTIVITES LOCALES ET L'ENTREPRISE PRIVEE EN MILIEU RURAL

UNITE DE GESTION

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Memo to: W. Hammink, Acting Director, PDO/USAID
From: B. Laurent, Chief of Party, Community and Enterprise Development Project
Subj: Memo of Response to the Midterm Evaluation Report of June, 1987
Date: August 10, 1987

On behalf of The New TransCentury Foundation and Management Systems International, the Management Unit of the Community and Enterprise Development Project wishes to thank PDO for the opportunity to enter a formal response to the Midterm Evaluation Report for USAID project files and for the consideration of the USAID Project Committee and the National Project Committee. A translation of this memo is being transmitted to the National Project Committee.

Our comments can be divided into three categories, one pertaining to the Small Scale Enterprise Component, one pertaining to the PVO Component, and one pertaining to project management in general.

SMALL SCALE ENTERPRISE COMPONENT

1) The Evaluation Team narrowed its options with respect to parent institutions by making a number of limiting presumptions. These were:
   a) No PVO can "inherit" the SSE loan fund as they are legally barred from being involved in profit-making activities
   b) The government of Senegal will not create a new organization to take on the loan fund
   c) Therefore, only the banking system is left as an alternative.

   Members of the Management Unit visited the banking sector with the Evaluation Team in June, and found that the banks' reaction to the idea of eventually taking over the loan fund was politely but firmly negative, except in the cases of SONABANQUE and CNCAS which, according to the evaluation report, have poor or unproven track records.

   By focusing on the banking sector certain other concepts were built into the evaluation, such as the profitability of the SSE unit as a key to institutionalization, while it is clear that private commercial banking institutions are simply not interested. Despite the Evaluation Report's selective viewpoint and the limited scope of the recommendations we feel it is important that two points be considered:

   - The SSE component is a pilot initiative in small business lending which is achieving some success, perhaps largely because of its unique structure and approach to lending. This structure and approach do not conform to that of any

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other institution in Senegal. Therefore, if the approach is going to be perpetuated, the structure will have to be preserved so that it may function as an entity in its own right, even if it is placed under the wing of some other institution.

- Any approach that we take to institutionalization will have to be creative. Whereas the Evaluation Team did a commendable job of exploring the obvious alternatives, we feel that these do not offer realistic solutions. The Management Unit proposes that we now begin to explore a range of innovative options. The limited nature of the report's recommendations tends to suggest that a great deal more work is now needed in considering different scenarios.

2) According to the Project Document and the Strategy Document (for the SSE Component), the Credit Fund is to break even by PACD. However, owing to the Evaluation Team's focus on the commercial banking sector as parent to the SSE loan fund, profitability became an issue.

Profitability is a desirable goal, and we are able to make efforts towards this by increasing the size of the loan fund, increasing the number of agents, raising loan size ceilings, and more effectively marketing credit. However, we must stress that the limiting factor will be demand for credit. It is not clear that demand, which is only lightly referred to in the report, will be at a level in the Project zone to support a profit making loan fund of this type. We therefore feel that it would be unfortunate if success, failure or, for that matter, viability of the fund for institutionalization were judged in strictly commercial terms.

3) The sensitivity analyses and other calculations and projections performed by the Evaluation Team were, for the most part, based on estimates. The Management Unit is studying these very closely, and would urge that these calculations, -and the conclusions that are based on them,- be considered neither as being conclusive nor definitive at this time.

PVO COMPONENT

1) The Management Unit wishes to dispel the notion, implicit in the Evaluation Report, that the PVO Component (or any other aspect of its operations, for that matter) exists and operates without the benefit, support, and technical oversight of the home offices of two organizations that have substantial experience and expertise in the areas of institutional/organizational development, PVO management, training, etc. The structure of this Project, which includes

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a number of technical oversight visits from home office staff and other important types of home office support (training materials research and development as well as technical research, for example) is one of the most important facets of the design. Unfortunately, this seems to have been overlooked.

2) The Evaluation Report statement that the PVO Component did not seek more flexibility in the criteria early in project implementation due to the limited experience of the PVO component manager is inaccurate and does not serve to clarify some of the basic challenges faced by the component since its inception:

- There are many more "players" in the field of donors to PVOs. The "niche" occupied by this component was therefore seen, at the beginning of the project, to be considerably narrow. The component manager did indeed make many and various strong and well-studied requests for more flexibility, only to see them rejected out of hand, or drown in the reality of the policy environment pertaining to PVOs and Village Organizations. (The Direct Assistance Program is a most recent example.)
- The PVO Component, contrary to an important statement made in the evaluation report, has never functioned "more or less independently since its inception." It is the most closely scrutinized, controlled, and restricted part of this Project.
- A further statement that the PVO staff now "has introduced flexibility in the application of VO project selection criteria..." because of guidance now provided by the "current chief of party and the team effort of the MU" is totally inaccurate. Any degree of flexibility allowed in this area is due to two years of constant effort on the part of the component manager, backed by MU (including home office) support.

3) A major flaw in the Evaluation pertains to the Team's understanding of the component's objective. It is not, as stated in the report, to "ensure that participating PVOs are effective, lower cost, and more flexible providers of goods and services to farmers than are local government organizations." (Executive Summary: Key Findings. para.4)

The component's objective, in effect, is to strengthen Village Organizations' capabilities with respect to selection and implementation of appropriate project activities to resolve felt needs, identification of sources of technical assistance and to increase their level of financial independence through engaging in projects that are technically sound and commercially profitable. The "objective" stated in the Executive Summary is, in fact, one of the hypotheses on which the project was based. (please refer to project logframe.) Many faulty conclusions follow this basic misunderstanding of the component's objective. These only tend to compound the many lesser errors, which cumulatively have the effect of seriously limiting the

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value of the recommendations concerning this component.

Management Issues

1) A number of statements are made in the body of the evaluation report in favor of communication between the two components, "cross fertilization of ideas", "creation of synergies" , and "establishing operational linkages" on one hand, while at the same time warning that "future SSE projects should be entirely separate from the PVO Component" so as not to jeopardize the SSE Component's "good chance of success."

The ideologically dual nature of the Community and Enterprise Development Project can be one of the more complex aspects of its design, and owes its origins to the fact that this Project was, at one time, two separate projects that for inhouse administrative policy reasons of USAID several years ago were combined into a single intervention.

The staffs of the two Components do frequently interact,- to the extent permitted by their Components' widely divergent objectives, restraints, and resources,- and will continue to do so in ways that are of mutual benefit, much like the "line offices" in any multi-project organization. The Management Unit feels that to formalize this interaction any further than is currently the case, or to stipulate specific areas for "operational linkage," etc, would serve to jeopardize the success of both components,- not only that of the SSE Component, unless such a linkage were of inherent benefit to both components. It is a fact that many villagers would like to have loans to start up or enlarge their private businesses: a large percentage of SSE loans are for businesses outside of Kaolack and Fatick. The existence of VO members who would like a personal business loan should therefore not reflect negatively on either component.- The two exist for different purposes, and should be allowed to operate as such.

2) The Evaluation Team recommended that both the Direct Assistance Program and the Business Creation Unit not be initiated so as not to stretch Project resources too thinly.

However, neither activity would make use of resources already being used for Project activities. The Management Unit is quite aware of its capabilities and constraints, and would not initiate new activities,- it spite of their positive effect,- at the expense of core activities. A formal agreement to fund the Direct Assistance Program, for example, has been proposed by Equator Bank with funding from Pew Trust.

October 21, 1987

TO: Bill Hammink

FROM: Bonnie Ricci, NTF and Janet Tuthill, MSI

BR JT

RE: Additional Comments on June, 1987 Evaluation of Community and Enterprise Development Project

We appreciate the opportunity to submit final comments on the recent evaluation of our project to supplement those already provided by Chief of Party Bert Laurent in his memo dated August 10, 1987. This memo will also update you on follow-through already underway in several areas.

General

1. The evaluation Appendices included the original project Logframes but ignored the draft revised Logframes that have been under consideration by the Team and A.I.D. for some months. We attach the revised versions, with the request that, subject to A.I.D.'s concurrence, a PIL be drawn up and officially incorporated as part of our Cooperative Agreement.

PVO Component

1. The evaluation states that in order to carry out new implementation requirements existing staff will need to be trained or new staff hired. It's important to remember that no one person can be all things to all people. The PVO Specialist was selected based on his knowledge of the Regions, Senegal, his familiarity with the NGO community here, and his agricultural and economics background. We stand behind our original decision. It was always our intention to supplement on-staff capability with support from home office staff and consulting associates, as we have done in the past. Prior to the evaluation we had begun to plan a home office consultation for the PVO Specialist to work through issues and implications for the PVO component. The timing was interrupted by the evaluation itself, but the State-side consultation has now taken place and plans are in process on a variety of implementation issues. In any case, the budget does not support hiring new, full-time personnel and we believe that this is not necessary.

A major effort in re-defining the PVO institutional strategy has been underway since June and plans for the last quarter of this year include a targetted capacity building program for the 8 PVOs funded which rests on capability needed to both provide services to VOs and successfully benefit from A.I.D. funding during the life of the project.

2. Two activities are already underway which respond to evaluation recommendations. The first is the Village Education Program which trains villagers in basic reading, writing, and mathematical skills in order to effectively manage their own

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projects. This is a year-long effort that ultimately contributes to village autonomy. The second is credit training which will begin in early December with a workshop geared to assist PVOs develop their credit management plans, with Management Unit followup on an individual basis. We will use the talents and resources of the Management Unit, supplemented by an outside consultant, to be identified.

SSE Component

1. In the context of loan portfolio profitability the evaluation recommended increasing the size of the revolving loan fund and recommended an immediate transfer of funds from the PVO component grant fund. Whether or not this amount will actually make the loan fund profitable is not clear to us at this moment. We would like another opportunity to look at the profitability issue in connection with an Options Paper we intend to produce early in 1988, which is briefly discussed below.

2. In the context of leaving the corpus of a revolving loan fund intact at the project's end, the evaluation recommended that reflows not be used to fund project operations in the final years of the project. However, the evaluation did not recommend how the final years of the project were to be funded in this event. NTF and MSI look to A.I.D. for guidance on this matter. We do not see a way to substitute other project monies for the reflows without seriously disabling other parts of the project. It would appear that we would need to begin using reflows around May, 1989.

3. The evaluation presented an optimistic picture of bank interest in taking over the SSE credit fund. The Management Unit has not ruled the banks out, but is not as optimistic as the evaluators. We believe there are several promising options, all of which need more study. We propose to develop an Options Paper that will explore possible end-situations for the SSE credit fund, with an analysis of steps that would have to be taken, administratively and policy wise, for each of the options to be realized by PACD. We will share more on this with A.I.D. as this idea develops.

4. Though Equator Foundation involvement did not work out for the PVO Component's proposed DAP, we suggest to you that there is in all probability a role for Equator on the SSE side. Equator remains interested in work in Senegal, and remains keenly interested in building on our existing structure. Our plan is to explore a shift of Equator interest from PVO to SSE to, for example, augment the SSE loan fund, or perhaps more innovatively, to open a new "window" in the SSE component for diversified clientele (such as VOs and/or microvendors).

Training

1. The evaluation has misrepresented the credentials of the

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Training Specialist. In addition to previous work in disaster preparedness, she worked for three years as director of training for a major U.S. PVO. All of her experience in this capacity was in Francophone Africa, including Senegal.

Decentralization Tours

1. To redress the situation of these tours having little direct connection with the Community and Enterprise Development Project, we urge A.I.D. to consider an official briefing by the Management Unit before tour participants depart for the U.S., and an official debriefing once participants have returned. There is a real missed opportunity here. Even as the tours are in development, the Management Unit might have some ideas as to the types of activities which might be worth looking at in the U.S., in addition to what USDA might propose.

Conclusion

We look forward to discussing any of these issues in further detail. The most immediate decision point is A.I.D. concurrence on the revised Logframes and execution of a PIL.

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