

Senegal

Survey of the Formal Private Sector

Paper for Focus Group Discussions

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The purpose of the survey of the formal private sector is to ask businesspeople throughout the Senegalese economy what problems they are having in developing their businesses. Much of the survey was done by the Cabinet Aziz Dieye. Below we reprint the summary of the report.

Executive Summary

The state of the Senegalese economy, from the perspective of leaders in the formal sector, is very poor and not conducive to development of the private sector. Less than three percent of those interviewed feel that conditions have gotten much better. More than half feel that conditions are either unchanged or have gotten much worse during the same period, with the industrial sector being particularly distressed. More than half of the business leaders interviewed indicated that there was either a decline or a sharp decline in their volume of sales during the past year and only a third feel that things will improve next year.

Those involved in industrial and agricultural production, the two major targets of the NPI (New Industrial Policy) and NPA (New Agricultural Policy) respectively, are more likely than their colleagues in other sectors to suggest that conditions have gotten much worse.

The level of foreign investment appears to be quite modest, although by local standards, the sums may seem quite substantial. More than half (51%) of the firms included in our sample are owned wholly or in part by foreign, primarily French, investors. The overall investment climate in Senegal from the perspective of business leaders in the formal sector is very poor because of:

(1) The high cost of inputs and basic services

The price of the most basic services (e.g., telephone communications, electricity, and water) top the list of factors having a negative impact on output. The reliability of telephone service and electricity are quite poor. These factors were ranked higher in importance overall than even such widely documented problems as the lack of access to credit and the prices of primary materials.

(2) The lack of availability of stable credit mechanisms

Of the 211 firms included in our sample, only about a third (35.5%) received any capital from commercial banks. Other than commercial banks, the only major source of capital/credit identified appears to come from suppliers, who provide goods on consignment. The impact of other types of credit, other than that coming from family and friends, is minimal.

The lack of credit and or difficulties in obtaining credit are among the most important obstacles cited to private sector development. The banking system has, for all intents and purposes, ceased to function. Guarantees required to obtain credit are such that only a very small percentage of the firms examined have any financial support from commercial banks.

(3) The relatively small size of the market and lack of a genuine export orientation

The market orientation of most of the formal sector firms in Senegal is strictly local. The overwhelming majority of firms (72%) sell most or all of their production on the local (Senegalese) market.

The source of supplies of primary products for businesses operating in Senegal is a bit more diversified, but still heavily oriented to the local area. More than half (55%) of firms obtain supplies, on average 64.4 percent of their primary products, on the local market. The role played by the EEC as a supplier of inputs is, as expected, very important. Nearly half of all firms (45.5%) receive supplies from this source, with the average being nearly two-thirds (66.3%) of inputs. It should be further emphasized that most of the supplies from EEC countries are from one country, France.

(4) A policy process which has excluded the private sector from participation during the formative stage

Rapid, unpredictable changes in regulations governing the private sector was ranked as the number one obstacle to private sector development. Virtually all new private investment appears to have been put on hold until the policy and regulatory situation is clarified.

The policy making process in Senegal is not conducive to providing access at early stages in the process to the private sector. The general lack of government consultation with the private sector is regarded as a major obstacle to development in this area. Three-fourths of the business leaders interviewed feel that this is an important (33%) or very important (42%) issue. Of the forty-five obstacles considered, it ranks third overall in importance and second for those in the agricultural and service sectors.

(5) A set of uncoordinated, unevenly implemented regulatory agencies and mechanisms that are both costly and unwieldy

The unevenness with which the regulations are applied is another thorn in the side of the business community. Not surprisingly, certain individuals are perceived as receiving "special" treatment. More than half of the business leaders cited this as an obstacle to the growth of their own businesses. Several top business leaders were quite open in indicating that they were only able to function as well as they were because of close connections with or direct involvement by key political leaders. They underlined the fact that even with these ties, they still had many problems in dealing with functionaries and inadequate and inappropriate government policies. Several indicated that they could not see how some of their colleagues, who lacked such connections, were able to function at all.

(6) A functionary "mindset" which either does not understand or is directly biased against the private sector

Interactions between the business community and the bureaucracy generally have a negative tone to them. Most entrepreneurs felt that the negative attitudes of the Government toward the private sector and the general lack of understanding of the private sector by functionaries, present them with serious obstacles. The very same people who distrust and/or are jealous of private entrepreneurs are now charged with regulating and promoting growth in the private sector.

(7) A high degree of uncertainty created by 4, 5, and 6 above

(8) ineffective business and professional associations that are weak in both lobbying and data collection and the analysis and dissemination of information

The primary obstacle to private sector development, uncertainty generated by rapid changes in the regulatory environment, is what these organizations must address first. The ability to provide information on Government policy and to engage in a dialogue with the Government on these

issues are regarded as very important by seventy-one and sixty-nine percent of the business leaders respectively. This is closely followed by the desire to obtain information on markets and market conditions.

(9) Few opportunities in the most important of Senegal's sectors, agricultural production and transformation

While diversification is the most obvious strategic necessity, the general lack of confidence in investment in the agricultural sector would suggest that most food production will remain artisanal and oriented toward subsistence, rather than the market.

(10) There is little likelihood that the unemployed, underemployed, and new entrants to the labor market will find much relief in the formal sector

The key factors here appear to be the relatively low level of productivity of Senegalese workers and the lack of any practical training provided by the formal education system.

The employment picture for women in the formal private sector is particularly grim. While eighty percent of the firms in our sample employ some women in permanent positions, the average is only 4.2 (less than 10% of the comparable figure for males). Furthermore, most females employed in permanent positions are at the level of secretarial and less skilled, lower paying jobs.

Women seeking serious involvement in the economy seem to be confined to the informal sector or to intense competition for a very limited number of positions in the formal sector.

(11) There is little motivation to invest in improvements in private sector firms

The business community generally seems to feel that the major problems and constraints they face are exogenous. The state of the economy, problems with Government policy-making and regulatory mechanisms, and the availability of credit all seem to be the major preoccupations that must be dealt with before endogenous changes can be dealt with.

The most frequently cited action is improving their own management aptitude or knowledge. Improving marketing practices and developing improved marketing strategies ranked at the top of the list for the industrial sector and second for those involved in commerce. For the agricultural enterprises, capital investments and introducing improved production and quality control techniques are the most important priorities.

(12) Investment opportunities appear to be limited

Tourism and commerce seem to be the only areas in which there is any significant degree of confidence expressed by the business community.

Even in the areas rated as best for investment, less than a third of those interviewed had a strong sense that the opportunities are very good.

Selected Tables
From the Survey of the Formal Private Sector

Table One
Distribution of Formal Sector Firms in the Sample by City

City	n	Percent
Dakar	163	77.3
Rufisque	5	2.4
St. Louis	8	3.8
Kaolack	8	3.8
Ziguinchor	5	2.4
Thies	4	1.9
Kolda	1	0.5
Louga	2	1.0
Fatick	2	1.0
Diourbel	3	1.4
Tambacounda	2	1.0
Other	8	3.8
Total	211	100.3*

* Total exceeds 100 percent because of rounding.

Table Two
Sector of Production of Firms Included in the Sample

Sector	n*
Agriculture (includes forestry, fishing livestock production and agricultural business)	30
Services	94
Industry and Mines	58
Commerce	91

*Although the sample consists of 211 firms, a number of them are involved in more than one sector.

Table Four
Foreign Investment/Ownership of Firms Operating in
Senegal Included in the Formal Sector Sample

Nationality	n	Percent*
French	77	71.3
Lebanese	12	11.1
French and Lebanese	4	3.7
French and Swiss	2	1.9
French and German	1	0.9
British	2	1.9
Belgian	1	0.9
Dutch	1	0.9
Spanish	1	0.9
American (U.S.A.)	1	0.9
Canadian	1	0.9
Chinese	1	0.9
Korean	1	0.9
Algerian	1	0.9
Cape Verdian	1	0.9
Ivoirian	<u>1</u>	<u>0.9</u>
Total	108	99.8*

*Percent of those firms having foreign investment.

**Total is less than 100% because of rounding.

Table Seven
Distribution of Sales by Region of Destination (%)

Region/ Area	X	Range	n*
Local (Senegal)	88.3	2-100	152
West Africa	12.7	1-90	52
Maghreb	3.5	2-5	2
Asia	21.0	1-41	2
EEC	64.3	1-100	21
Europe (other)	2.7	1-5	3
Africa (other)	39.7	2-60	3
North America	—	—	—
Middle East	10.0	—	1
Other	25.0	—	1

*Number of firms.

Table Nine
Recent Trends in the Economic Environment in Senegal
for the Private Sector (%)

Sector	Much Better	Somewhat Better	Unchanged	Much Worse	n*
Commerce	2.2	50.0	18.9	28.9	90
Industry/Mines	0.0	42.6	25.9	35.2	54
Agriculture	3.7	44.4	18.5	33.3	27
Services	4.3	41.9	28.0	25.8	93
All	2.8	43.1	24.2	28.9	210

*Number of Firms. The total by sector is greater than the total number of firms because several firms operate in multiple sectors.

Table Ten
Trends in Volume of Sales During the Past Year
and Projections for Next Year (%)*

	Strong Improvement	Improvement	Stable	Sharp Decline	Decline	D.K.
Past Year	6.2	16.2	23.8	35.7	15.2	2.9
Next Year	7.6	26.5	37.0	15.2	2.4	11.4

*n=211

Table Twelve
The Perceived Effect of Various Factors on Production
of Goods and Services (%)

Factor	Impact			DK*
	Positive	Neutral	Negative	
Price of Telephone	9.1	21.1	69.4	0.5
Price of Water	5.7	43.1	48.8	2.4
Price of Electricity	12.9	33.5	53.1	0.5
Access to Credit	12.9	37.1	45.2	4.8
Prices for Primary Materials	18.6	32.4	45.7	3.3
Reliability of Electric	14.8	43.5	41.2	0.5
Price of Transport	7.2	62.0	27.4	3.4
Access to Land	16.8	42.3	25.0	15.9
Uncertainty Regarding Land Tenure	15.3	53.1	23.4	8.1
Telephone Reliability	32.5	25.8	38.8	2.9
Availability of Buildings	22.0	47.4	27.3	3.4
Availability of Land	25.8	42.6	25.8	5.7
Access to Primary Products	37.0	35.6	24.0	3.4
Quality of Water	33.0	42.6	20.1	4.3
Security of Buildings	39.9	37.5	20.2	2.4
Access to Electricity	32.7	47.9	18.5	1.0
Availability of Skilled Labor	41.3	41.9	13.8	3.1
Access to Water	31.6	53.6	12.9	1.9
Access to Transport	26.7	62.4	8.1	2.9
Cost of Land	49.3	36.4	12.0	2.4

*DK - Don't Know

Table Thirteen
The Perceived Effect of Various Factors on Production
of Goods and Services by Sector (Ranks)*

Factor Comm.	Sector				All
	Industry/Mines		Agric.	Serv.	
Price of Telephone	1	1	2.5	1	1
Price of Water	2	2	5.5	3	2
Price of Electricity	4	4	2.5	2	3
Access to Credit	3	5	4	5.5	4
Prices for Primary Materials	7.5	3	1	4	5
Reliability of Elect.	5	6	7	5.5	6
Price of Transport	6	7	10.5	7	7
Uncertainty of Land Tenure	9	9	10.5	8	8.5
Access to Land	11	8	5.5	11	8.5
Telephone Reliability	7.5	11		10	
Availability of Buildings	12	10		9	11
Availability of Land			9	10	12
Access to Primary Products			8		
Availability of Skilled Labor					
Access to Electricity					
Access to Water					
Access to Transport					
Quality of Water					
Security of Buildings					
Cost of Land					

*Rankings are from most (1) to least negative impact. Of the twenty factors, the ranks of only those showing a consensus negative impact for at least one sector are shown.

Table Fourteen
Sources of Capital for Senegalese Enterprises in the Formal Sector (n)

Source	1-20%	21-50%*	Sector*			
			C	I	A	S
Local Commercial Banks	44	31	38	20	9	30
Development Banks	2	3	1	0	4	3
Informal Institutions	3	1	1	0	4	3
External Sources	5	9	5	4	1	9
Transfers from Abroad	2	2	2	0	2	1
Cooperatives	1	0	1	0	0	0
Family/Friends	15	4	12	4	2	7
Suppliers (consignments)	33	31	32	20	8	21
Group Contributions	2	0	2	0	0	0
Unions	0	0	0	0	0	0
Other	9	12	13	5	4	12

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

Table Fifteen
Obstacles to Growth of the Private Sector in Senegal That Affect Your Business
and Others Like It (% Overall and Rank by Sector)

Obstacle	% Very* Important	% Important	Rank by Sector**				
			Overall	C	I	A	S
<u>INFORMATION/UNCERTAINTY</u>							
Rapid, unpredictable changes in regulations affecting private sect.	42	35	1	4	2	4	1
Uncertainty about business practices	39	36	4	10	3	7	7
Lack of usable info. on economic situation	34	29	19	23	24	15	17
Lack of dynamism in Chamber of Commerce	22	27	23	21	28	37	21
Lack of useful info. on external demand for Senegalese products	18	22	33	34	33	23	33
Lack of access to data available to certain research institutions	14	19	40	39	40	30	41
<u>POLICY MAKING AND IMPLEMENTATION</u>							
Lack of Govt. consult. with private sector on new regulations	42	33	3	5	6	2	2
Lack of coordination between Ministries regulating priv. sect.	36	32	5	10	13	5	5
Inequities-application of customs duties	36	24	10	6	13	10	9
TVA too high	41	23	11	2	19	26	7
Long delays in customs	35	25	12	16	15	6	11
Too many ministries involved in regulating the private sector	28	33	14	14	21	7	12
"Special" treatment to certain individuals	29	25	15	18	25	21	12
TVA misapplied	35	20	17	7	19	41	19
NPI measures not well implemented	23	23	22	19	13	32	24
Lack of rigor in NPI implementation	23	30	24	32	26	22	22
Lack of incentives in the investment code	21	27	24	26	28	14	25
Constraints-"Economic Control"	25	26	26	20	36	38	29
Lack of coordination between NPA and NPI	16	17	28	25	27	36	33
Functioning of the "Guichet Unique"	8	14	42	35	43	35	42

SMIG too high	4	14	45	45	45	43	45
<u>CREDIT</u>							
Required guarantees for credit are too high	51	22	2	2	4	10	10
Access to credit	43	30	6	1	8	13	14
Too much documentation required for credit	41	29	7	8	1	17	16
Ceiling on credit	31	30	16	12	5	16	26
<u>FUNCTIONARIES</u>							
Misunderstanding Priv. Sect. by Functionaires	36	30	7	12	9	3	3
Functionaires lack motivation	37	29	9	15	6	1	4
Negative attitudes of govt. to private sect.	37	26	12	9	16	9	15
Payment of "illegal" tax to functionaries	30	24	17	22	22	12	6
Lack of recognition of role of entrepreneur	22	23	20	17	16	29	23
Costs linked to payment of overtime	8	19	43	43	44	40	43
<u>HUMAN RESOURCES</u>							
Low Productivity of Senegalese Labor	21	36	27	29	18	28	27
Graduates lack practical experience	19	32	29	26	31	34	19
Lack of flexibility in Labor Code	19	27	30	33	11	19	30
Graduates lack spirit of competition	17	27	32	30	34	26	28
Procedures for dealing with labor disputes	12	25	35	38	35	25	37
Lack of technical qualifications on the local market	16	29	35	41	30	42	32
Lack of qualified managers	20	23	37	37	39	31	31
Problems with unions	14	23	38	36	38	23	39
Lack skilled workers	12	30	40	40	41	42	35
High cost of hiring	5	15	44	44	42	44	44

COSTS

High cost of new technology	28	30	20	24	10	17	18
Lack of protection for local products	25	18	31	31	22	32	38
High cost of sea trans.	18	16	33	28	32	39	35
Availability of spare parts	17	17	39	42	37	19	39

*All percentages are for the entire sample.

**Ranks go from most important problem (1) to least important problem (4).

Table Seventeen
Ranking of Possible Actions to Improve the Functioning of Their Enterprise

Action	% Very Likely	Overall Rank by Sector*				
		All	C	I	A	S
Improve my own aptitude in management	35	1	1	6	5	1
Capital investments	31	2	3	4	1	2
Improve marketing	35	3	2	1	6	4
Training of staff	29	4	5	4	4	3
Improved production techniques	26	5	7	3	2	5
Improve quality control	24	6	4	2	3	6
Buy land or buildings	19	7	6	7	7	6

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

Table Eighteen
Future Investment Opportunities Expected Profitability

Overall Investment	%Excellent	Rank by Sector*				
		All**	C	I	A	S
Tourism	29.6	1	2	1	4	1
Commerce	30.0	2	1	3	1	2
Construction	24.8	3	4	7	6	3
Transformation of Agricult. products for resale on local market	16.5	3	5	4	3	4
Industrial production for the local market	20.0	5	3	5	8	6
Transformation of Agricult. products for resale on the international market	18.9	6	6	2	2	5
Re-sale of Agricultural products on international market	18.0	7	7	6	9	8
Re-sale of Agricultural products on local market	16.5	8	9	8	7	6
Industrial production for the international market	18.0	9	7	9	5	9
Banking	16.1	10	10	10	10	10

*Investments are ranked from 1 (most likely to be profitable) to 10 (least likely on the list to be profitable).

**Overall rankings are based on the total distribution of responses (excellent, fair, poor).
 C=commerce, I=industry and mines, A=agriculture and agricultural business, S=services.

Table Nineteen
Agricultural Products Deemed Most Worthy of Investing in

Product	n*	
Fruit and vegetables	153	
Livestock	129	
Rice		122
Maize	90	
Cotton	77	
Cowpeas	75	
Sugar	70	
Aquaculture	63	
Peanuts	43	
Other	13	

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