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Senegal

Survey of the Informal Private Sector

Paper for Focus Group Discussions

November 1, 1990



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Senegal Informal Private Sector Summary

Virtually all of the firms included in the sample are owned and operated by Senegalese nationals. Only five (4.4%) of the 114 interviewees reported that the firms they represented were partially or wholly owned by foreigners. The level of foreign investment in the informal sector is extremely low. The number of foreign owned firms, especially those involved in small scale retail trade, would undoubtedly have been much larger before the recent expulsion of Mauritians and the subsequent "nationalization" of their shops. Many Senegalese who previously regarded shopkeeping as beneath their dignity have developed a healthy respect for small scale retail business.

Personnel

Informal sector firms are generally very small scale operations, although there are a few which employ as many as 100 individuals. Opportunities for employment are limited, but broader than they might initially appear to be. It should be pointed out, however, that salaries and benefits provided in the informal sector are extremely low. It is virtually impossible for these firms to conform to the existing, very restrictive labor codes and still be able to survive. Women fare somewhat better in the informal than the formal sector in that they own and manage a number of firms.

Markets and Sources of Supplies

The market orientation of informal sector firms is strictly local. They lack the resources and knowledge of markets and marketing channels necessary to operate internationally. The same very local orientation holds for sources of supplies and inputs for informal sector businesses. Most such firms receive all of their supplies and inputs on the local market in Senegal. Currently, informal sector business leaders, like their formal sector counterparts, do not perceive the business climate to be very positive. Only about one in ten think that the economic environment during the past year has gotten much better, while more than a third (35.1%) perceive that conditions had in fact gotten much worse. In the service area, about a third feel that conditions are getting better, but forty two percent feel that they are getting much worse. In the industry and agricultural groups, on the other hand, more than half feel that economic conditions are getting better. The formal commerce and service areas are probably the most likely to feel the immediate effects of an economic downturn. They also represent the largest share of the informal sector firms and thus reflect the general malaise in the sector.

Trends in Volume of Sales

The reaction of business leaders in the informal sector to the economic environment is consistent with their views regarding trends in the volume of sales during the past year. Nearly half (48.5%) indicated that they had experienced a decline or a sharp decline in sales during this period. A major difference between the formal and informal sectors appears in the area of land availability and land tenure. The percentage of business leaders in the informal sector identifying this as a problem or constraint is much higher than that for formal sector firms. These individuals rely on access to market stalls and/or land or buildings where production can take place, but are unwilling to make investments in expanding their production because of uncertainties regarding their access to additional land and the security of land tenure.

Sources of Credit

The general lack of credit available for the private sector continues to be a major problem. It is even a greater problem for informal sector firms than for the formal sector. Very few of these firms receive any form of credit in the formal financial system. Almost all of these firms rely on informal lending mechanisms. Most investments in these operations seem to come from personal sources of funds, from friends and relatives, and from groups that make contributions which are assigned to members in turn.

Obstacles to Growth of the Private Sector

Some would suggest that the current vitality of the nonformal sector can be, at least in part, attributed to the fact that small businesses have been left pretty much on their own.

Credit

The lack of credit available to small firms appears to be the main obstacle to growth from the perspective of entrepreneurs in the informal sector.

Policy Making and Implementation

The most important problem in the policy area, as perceived by managers of small businesses, is the implementation inequities associated with the "special" treatment accorded to certain individuals. Nearly two-thirds of the interviewees identified this as an important or very important problem, making it the third most important problem they face as a group.

The Role of Government Functionaries

Most functionaries have little understanding of the functioning of the private sector or of a market economy. This is especially true of the middle and lower level officials with whom the informal sector firms are in daily contact. It is quite significant that nearly half of the operators of small firms identified the payment of "illegal" taxes to functionaries as a major obstacle to the operation of their businesses. Government functionaries are perceived as having negative attitudes toward the private sector, little understanding of its role and functioning, and of being poorly motivated in the execution of their jobs. Work habits are considered to be very poor.

Human Resources

The main problem here is that the wages and benefits (if any) provided in the informal sector are very unattractive to anyone who has any formal education or training in an important skill area. Thus, the informal firms rely very heavily for labor on relatives, and young males, primarily dropouts, with little if any formal schooling or training. Many of the laborers in these firms, rather than being skilled craftsmen, are basically apprentices who work under the supervision of the owner.

Information and Uncertainty

The information sources on which informal sector managers rely are very limited. The extremely poor performance of the Chamber of Commerce in performing this function was widely noted. Instead, they are tuned in to very informal information channels, primarily face-to-face conversations, gossip, and rumors. Since there is often a considerable time lag involved before implementation and few real changes in the degree to which their firms are likely to be

subject to “informal” taxes, the informal information channels are probably the most reliable and relevant for them.

Opportunities

With the liberalization of the economy, new “niches” appear into which enterprising individuals can move. Commerce, construction, and the resale of agricultural products on the local market rank at the top of the list of perceived opportunities. In terms of production-related activities, the local market is the target of preference for the transformation and resale of agricultural products and industrial production.

Associations

Only a relatively small percentage (25.7%) of the owners/operators of informal sector firms hold memberships in associations of small businesses. Support for an association-based strategy to strengthen the “informal” firms in the private sector in Senegal appears to be indicated.

Some Recommendations

1. **Government Regulation** - The informal sector is an extremely vibrant part of the Senegalese economy. Its contributions to employment and the production of goods and services are quite significant. The greatest strength of the informal sector is its ability to rapidly adapt to market conditions and the needs of consumers. Currently, these organizations are not generally paying much in the way of formal taxes. These valuable enterprises are able to survive precisely because they fall outside the purview of the government. The best thing that can be done for the informal sector in the larger sense is to leave it alone. Minimizing efforts by government to regulate this sector, rather than seeking to expand regulatory procedures, may be the most appropriate donor action.
2. **Credit** - The major need expressed by owner/operators in the informal sector is for access to credit. However, their record keeping, level of activity, and growth potential do not justify creation of a separate banking system designed to meet their needs. In fact, it is doubtful that they fully understand the nature of formal savings and credit, and likely would be unable to handle repayment in an appropriate fashion. Given the size of the loans that could be justified, the real needs for finance, and the understanding of credit mechanisms, large scale projects designed to address this need do not appear to be called for. Instead, informal credit mechanisms, or credit distributed through groups, particularly business associations, appear to make the most sense. This may require some technical and financial assistance to strengthen and expand the role played by such associations.
3. **Labor** - These organizations employ many individuals, primarily as apprentices. Costs are kept very low and labor is thus relatively productive, especially when compared to the formal sector. Attempted interventions in this area may lead to greater enforcement of the Labor Code or, perhaps more likely, greater payoffs to government officials, union representatives, and others for ignoring the Code. The apprentice system is well adapted to local conditions, resources, and "recycling" techniques that make local enterprises viable. It is doubtful that externally financed training programs would be able to address the true skill needs in the informal sector. While improved technical and trade schools might be worthwhile investments, they are unlikely to provide much direct assistance to the existing informal sector.
4. **Functionaries** - The prime contact of informal sector businesses with the government appears in the form of the extraction of "informal taxes." Decreasing the number of public officials in general, and the insertion of many former functionaries into the private sector will probably be the biggest help. Sensitizing those in the public service to the legitimacy of these firms and the contribution they make to the economy is probably the best thing that can be done at this time. This could be included in an "in-service" training program designed to expose functionaries to the operations of and contributions by the private sector to the economy.
5. **Organizations/Associations** - The organizations which represent the interests of informal sector firms are even weaker than those which serve the formal sector. Support for strengthening, and in some cases establishing new associations, is very much needed. Donor sponsored technical assistance in this area would be highly desirable. If successfully nurtured, such associations could provide a mechanism for disseminating information, lobbying on behalf of, and managing credit for the informal sector.

**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 Five
Self Reported Level of Foreign Investment in Sampled
Firms* (in millions of FCFA)

Level	1	1-9.9	10-50	51-100	>100
n	6	18	17	9	22
%	8.3	25.0	23.6	12.5	30.6

*Of 108 firms reporting foreign investment, 72 reported the level.

**\$1 U.S. = 290 FCFA.

Table Eight
Distribution of Supplies of Primary Products by
Region of Origin (%)

Region/Area	X	Range	n (Firms)
Local (Senegal)	64.4	2-100	116
West Africa	47.1	1-100	8
Maghreb	26.6	2-90	5
Asia	46.6	1-100	8
EEC	66.3	2-100	96
Europe (other)	23.0	1-65	11
Africa (other)	2.0	—	1
North America	19.6	1-100	14
Middle East	100	—	1
Other	15.7	2-30	3

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 Eleven
 Ranking of Factors Having an Influence on the
 Volume of Sales by Sector*

Factor	Sector				
	All	Commer.	Indust/Mines	Agric.	Services
Competition from Public Enterprise	1	1	3	2.5	2
Competition from Senegalese Firms	2	2	4	6.5	3
Competition from Foreign Firms	3	3	7	1	1
Road Transport	4	4	1	2.5	5
Distance from Markets	5	6	2	6.5	4
Air Transport	6	5	5	4	—
Demand for our Products	—	—	—	5	—

*Rankings are from most (1) to least negative impact. Of the ten factors, only those ranking in the top five and showing a consensus negative impact for at least one sector are shown.

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

Factor	Impact			
	Positive	Neutral	Negative	DK*
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	Sector				All
	Comm.	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
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CREDIT

Required guarantees for credit are too high	51	22	2	2	4	10	10
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Access to credit	43	30	6	1	8	13	14
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Too much documentation required for credit	41	29	7	8	1	17	16
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Ceiling on credit	31	30	16	12	5	16	26
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FUNCTIONARIES

Misunderstanding Priv. Sect. by Functionaries	36	30	7	12	9	3	3
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Functionaries lack motivation	37	29	9	15	6	1	4
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Negative attitudes of govt. to private sect.	37	26	12	9	16	9	15
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Payment of "illegal" tax to functionaries	30	24	17	22	22	12	6
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Lack of recognition of role of entrepreneur	22	23	20	17	16	29	23
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Costs linked to payment of overtime	8	19	43	43	44	40	43
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HUMAN RESOURCES

Low Productivity of Senegalese Labor	21	36	27	29	18	28	27
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Graduates lack practical experience	19	32	29	26	31	34	19
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Lack of flexibility in Labor Code	19	27	30	33	11	19	30
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Graduates lack spirit of competition	17	27	32	30	34	26	28
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Procedures for dealing with labor disputes	12	25	35	38	35	25	37
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Lack of technical qualifications on the local market	16	29	35	41	30	42	32
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Lack of qualified managers	20	23	37	37	39	31	31
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Problems with unions	14	23	38	36	38	23	39
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Lack skilled workers	12	30	40	40	41	42	35
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High cost of hiring	5	15	44	44	42	44	44
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<u>COSTS</u>							
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 (45).

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

Action	Overall Rank by Sector*					
	% Very Likely	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	Rank by Sector*					
	%Excellent	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.