

Issues in Microenterprise Employment, Production and Coping

Strategies in Post-Devaluation Dakar:

The Case of Garment-making and Woodworking Firms

by

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## **Abstract**

What are the principal factors influencing the decisions of manufacturing microenterprises, and how are such firms responding to some of the forces shaping the current business environment in Dakar since the devaluation? This study presents firm-level interviews with approximately thirty entrepreneurs from some of Dakar's microenterprises in the garment-making and woodworking sectors.

This study organizes the case material around three analytical themes. First, is the issue of employment growth among firms in these two sectors. The remarkable employment growth of these two sectors must be unbundled so as to assess the viability of the local product markets for the continued entrepreneurial development of these sectors. The nature of this growth, whether it be horizontal (through the proliferation of firms) or vertical (growth in size of firms), is explored carefully, alongside the attendant potential problems of market saturation. Second, is the type of production strategies that appear to offer firms the most substantial growth opportunities. The focus here will be on the primary constraints - economic, institutional, and technological - that are inhibiting firms from moving into more dynamic and potentially profitable, production strategies. Third, are the various coping strategies that are allowing firms to contend with a generally precarious business environment. Specific attention is paid to collective initiatives among groups of firms, as well as the more firm specific managerial issues that are allowing firms to grapple with some of the systemic problems associated with doing business in Dakar's urban economy, such as a lack of business credit and often weak client demand.

Practical implications for policy related action on the part of government, nongovernmental organizations and external donor agencies will be discussed with respect to the aforementioned issues. The emphasis in the discussion on practical implications, arising out of the case study material, will be to illustrate areas where support activities or policies can be designed through a pragmatic and flexible approach that does not seek to impose a rigid order or structure in the completely unregulated environment that characterizes much of the microenterprise landscape in Dakar. Such an approach, it shall be argued, will have to place a premium on first understanding the principles and needs behind the decisions of entrepreneurs, and second, on finding new ways to link such needs together in a logical and dynamic way.

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### List of Abbreviations Used

AGETIP	Agence d'Executions des Travaux d'Intérêt Public, Dakar, Senegal
CODESRIA	African Social Science Research Council, Dakar, Senegal
CBAO	Compagnie Bancaire de l'Afrique de l'Ouest, Dakar, Senegal
CESAG	African Center for Advanced Management Studies
CNS	Crédit National du Sénégal
ENDA	Environment and Development Action, Dakar, Senegal
ENDA GRAF	Groupe de Recherche, d'Action et de Formantion of ENDA Tiers Monde
FCFA	Franc of the African Financial Community
FENAPH	National Federation of Senegalese Garment-workers
IMF	International Monetary Fund, Washington, D.C.
IDRC	International Development Research Centre, Ottawa, Canada
NGO	Nongovernmental organization
PAME	Project d'Appui à la Microentreprise de la Médina (microentreprise credit project carried out by AGETIP)
SENELEC	Société Sénégalaise d'Électricité (power company)
SOTIBA	Société de Teinture, Blanchissement, Apprêts et d'Impressions Africaines (textile company specializing in the bleaching, dyeing and printing of textiles)
USAID	United States Agency for International Development, Washington, D.C.

### Currency Equivalents

Currency Unit	=	CFA Franc (FCFA)
US \$1.00	=	FCFA 484 (January 15, 1996)

## Section I: Introduction

### *Overview of country context*

Senegal, which is a small Sahelian country in West Africa, has always been a rather visible country that has had substantial influence both on a regional level as well as beyond. Since Dakar, the nation's capital, was the administrative capital of French West Africa in the colonial period, Senegal has always had a rather high profile and has been a center for African politics. As a result of this colonial legacy, the country did benefit from substantial physical as well as other valuable infrastructure, namely an international airport, road and rail connections to neighboring countries, a port, a radio network and a university. Senegal is also known for Léopold Senghor, the poet-scholar who was the country's first president from independence in 1960 through 1980. Under Senghor's leadership, Dakar became a leading intellectual center in Africa, attracting artists and scholars from all over the world.<sup>1</sup>

Senegal's economic performance prior to 1990 is best characterized by a fortunate combination of ample rainfall and high world prices for phosphates and groundnuts that led to an export boom between 1974 and 1978. The boom however proved to be short-lived even though high levels of public investment persisted through a succession of droughts and a substantial deterioration in the terms of trade. Continued heavy borrowing, to maintain past spending patterns, created significant macroeconomic imbalances which were not corrected until 1984 during the course of the first structural adjustment loan. From 1984-88 real GDP grew at an average annual rate of 4.3% but this growth rate could not be sustained. Both a large real exchange rate appreciation along with further negative terms of trade shocks led to an increasing overvaluation of Senegal's real exchange rate.<sup>2</sup> Beginning in the late 1980s and lasting till 1993, the economy experienced serious contraction in many key sectors.<sup>3</sup>

In an attempt to turn around a rapidly worsening situation, the government adopted several measures in August of 1993 aimed at deepening some of the deflationary measures adopted over the course of its 1980s structural adjustment reforms pursued with the World Bank. Foremost among these measures was a 15% cut in public sector wages, but the real exchange rate overvaluation had already seriously damaged the

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<sup>1</sup> Ka, Samba, "Uneasy Passage: Senegal in 1993," *CSIS Africa Notes*, No. 149, The Center for Strategic and International Studies, Washington, D.C., 1993, pg. 1.

<sup>2</sup> Also crucial in this regard is the fixed parity of the CFA franc with the French franc, which prior to the devaluation was set at FCFA 1 = FF 50. The French franc underwent a strong appreciation against the US dollar in the early 1980s as the French government was pursuing a high interest policy, called the "Franc Fort."

<sup>3</sup> In 1991, output in fish processing declined by 66%; phosphates by 24%; textiles by 37% and food processing by 46%. Exports of groundnuts decreased in value by 41% from 1990-91. This information is taken from a report prepared by the Country Operations Division, West Africa Department, Africa Region on a country assistance strategy for Senegal, World Bank, January 26, 1995, pg. 2.

competitiveness of the economy. By the end of 1993, Senegal had a budget deficit of FCFA 47 billion and had fallen into arrears on its payments to the order of FCFA 134 billion. As it became clearer that the country's internal adjustment strategy was too little too late, Senegal along with the other members of the CFA Franc Zone, opted for a devaluation of the currency by altering the parity of the CFA franc from FCFA 50 to 1 French franc to FCFA 100 to 1 French Franc.

Senegal has registered a 1.7% GDP growth rate for the period 1988-93 which is substantially below the country's rather high annual population growth rate of 2.9%. There are however some encouraging signs in the wake of the devaluation. First of all, inflation is being successfully controlled as measured by the increase in the GDP deflator which went up by 33% and by the consumer price index for Dakar which increased 32% over 1994, which was under the rate of 39% projected by the International Monetary Fund. Second, the real effective exchange rate depreciated by 35% which allowed for improvement in the competitiveness of the economy.<sup>4</sup> The supply response of the economy has in fact also been encouraging for the year 1994 as the tourism sector experienced a 31% increase in new arrivals; export volume of fish and phosphoric acid increased by 17% and 27% respectively and increases in output for cotton and textiles, cement and groundnuts were also registered. Other structural measures being implemented by the government to the pleasure of the multi-lateral agencies include the liberalization of prices and of external trade; liberalization of the labor market; divestiture and the abolition of special legal and regulatory agreements affecting the protected monopoly position of many other state-owned enterprises.<sup>5</sup>

Despite all the projections, forecasts and recently released data on the macro-level adjustment of the economy since the devaluation, Senegal's medium to long-term growth prospects remain far from certain. Private foreign direct investment has averaged a meager US\$6.5 million a year over the last three years. To support its growth objectives, the country will continue to rely heavily on concessional external finance to finance investment projects. As of 1993, almost 61% of Senegal's total debt disbursed and outstanding was concessional. Employment growth in the modern sector has been negative from the latter half of the 1980s (with the exception of 1988) through to 1992, the year through which government statistics are available. Employment growth in the informal economy has grown at an average annual rate of 3%, if the 67% increase in 1986 is removed as an outlier. The informal sector now employs close to 60% of the non-farm labor force. Though data on the value-added contribution of the informal sector to GDP must be treated with much caution, recent estimates include 35% from U.S.A.I.D. survey work done in the mid-1980s.<sup>6</sup>

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<sup>4</sup> Data on inflation and real effective exchange rate are taken from, "Medium-term Economic and Financial Policy Framework Paper (1995-98)," prepared by the Senegalese authorities in cooperation with the International Monetary Fund and World Bank staffs, International Monetary Fund, Washington, D.C., October 1995.

<sup>5</sup> For a complete discussion on the progress to date on all of these reforms, see the policy framework paper prepared for the Enhanced Structural Adjustment Facility (ESAF) of the IMF discussed in note 3 above.

<sup>6</sup> These estimates are based on sample data from the mid-1980s and are widely believed to be seriously underestimating both the contribution of the informal economy to national value-added but also the level of

In the current environment, it is far less uncertain that the microenterprises that overwhelmingly comprise the informal sector are making critically important contributions to the process of economic adjustment since the devaluation, particularly among the urban poor, in terms of income generation, employment growth, training of young entrants into the labor force and satisfaction of consumer demand. What is more, many of the manufacturing activities of the microeconomy reveal numerous sources of dynamism both at the sectoral and firm level that suggest opportunities for private sector development based on small scale industrialization.

*The relevance of microenterprises and the central questions of the study*

Since the landscape in Senegal and many other developing countries is dominated by microenterprises, many of them operating outside the legal and regulatory framework, it is important to study how these firms are responding to government policies (or perhaps even an absence of policies) so as to develop a firmer picture of how microenterprises can continue to contribute to a potentially more efficient and equitable growth process. There are three fundamental lines of reasoning as to why microenterprises are a relevant consideration in the present Senegalese context and they form the backdrop against which the study will present the field-level research material from manufacturing sector microenterprises in the nation's capital city of Dakar. Each is rather distinct carrying with it different, but not necessarily mutually exclusive, implications for policy. A central research question or research hypothesis will be set forth for each of these three perspectives in order to focus the case material around some broader themes. These themes are meant to highlight both the extraordinary differences among firms working within the same sector as well as some of the systemic problems that are common to both sectors, garment-making and woodworking, that form the basis of the sub-sector analysis used here.

First, is the perspective of employment and poverty alleviation. In the absence of job growth in the modern sector, how viable are microenterprise activities in not only providing jobs, but in providing income generating opportunities to the urban poor living in Dakar?<sup>7</sup> After all, though microenterprise activity is not unequivocally associated with poverty, a disproportionate share of those working in such activities constitute the urban poor. As stagnation in the modern sector persists, the employment growth being generated among microenterprises in the informal economy has to be disaggregated. If employment growth is illustrative of a process of proliferation of firms in a given sector (horizontal growth), then the income generating potential of this type of growth for

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the GDP itself. More recent and less conservative estimates place the informal economy's contribution to national value-added at around 40-45%. For a more complete discussion of these issues, see "Le Secteur Informel au Sénégal: Recensement et Synthèse des Études," Cellule d'Appui A l'Environnement des Entreprises, Dakar, 1991.

<sup>7</sup> Recent data from a 1992 Priority Household Survey, carried out by the Government of Senegal in conjunction with the World Bank, showed that 34% of the entire population did not have the minimum caloric intake of 2,400 calories per adult per day during the harvest season (the most prosperous time of the year). See World Bank (note 2, pg. 2), op cit.

entrepreneurs, workers, apprentices and even family members has to be seriously questioned. The policy lessons coming out of such a case might favor a more regulatory role for the government with respect to the labor market than if employment growth was giving rise to more salaried workers within firms (vertical growth).

- *Question 1* - Employment growth and the size of the market: Does the employment growth occurring among microenterprises in Dakar reveal a process of vertical growth of firms whereby entrepreneurs are hiring more salaried/skilled workers or does it suggest the opposite, namely, a process of horizontal growth or proliferation in the number of smaller firms?

This question will explore the manner in which firms are acquiring their labor inputs; whether or not there is a strong market for skilled labor or whether firms are using primarily unskilled or family members for their labor requirements?

Second, is the economic growth perspective. In looking at firms that often keep no formal records of their business transactions and hence do not often have a firm idea of the profitability of their activities, how can underlying sources of dynamism be borne out analytically, if at all? Individual firms and the sectors in which they work, their clients and suppliers all must be seen as an inter-locking set of inputs and markets. From the demand side product markets to the supply side input markets, dynamism can lie within production processes, productivity of capital investments, segmented/niche markets or collective purchasing arrangements for inputs. In short, dynamism is not always internal to the firm and microenterprise support activities such as credit must be geared to linking firms up with dynamic markets, firms, supply chains or other such processes.

- *Question 2* - Production strategies, constraints and growth opportunities: What are the principal economic and institutional factors keeping firms from moving into more dynamic market opportunities?

This question will seek to uncover the ways in which local product markets are providing growth opportunities for firms in both the garment-making and woodworking sectors. Of particular concern here will be the issue of capital constraints and whether or not a certain threshold of capital investment already made in the firm and of operating capital available to the firm, is necessary for firms to be able to reorient production to achieve dynamic efficiency gains based on the production and commercialization of inventories of finished goods. Also, under what conditions are firms accessing the export markets?

Third, is what may be called the academic perspective. In light of the shock that is the devaluation, how are firms engaged in micro-level manufacturing activity responding to severe macroeconomic change? Emphasis here is not on the causal relationships that isolate the exact relationship between macro-level change and micro-level impact, but rather on the behavioral response of firms to the shock. What are the principles governing the decisions of entrepreneurs, particularly in a totally unregulated atmosphere



such as the Senegalese informal economy? Decisions made in the firm with respect to savings and investment, labor inputs, relations with suppliers and all other matters related to the production process are taking place in a general climate of business frailty where no formal mechanisms, regulations or procedures really shape business decisions in any systematic way. Policy lessons and support activities will have to be designed through a flexible approach that does not seek to impose a rigid order or structure were none exists but should rather understand first the principles and needs behind the decisions of entrepreneurs and seek to link them together in a logical and dynamic way.

- *Question 3 - Coping strategies:* How are firms grappling with some of the systemic problems associated with doing business since the devaluation such as rising input prices, weak client demand, market saturation and the lack of credit and marketing possibilities?

This question will address issues surrounding the firm-specific behavioral responses to the external environment. For instance, are firms coming together to form collective structures that seek to reduce the level of uncertainty under which they are operating? And if so, what priorities are they placing first? What specific factors allow entrepreneurs to get through difficult periods such as those associated with drop-offs in client demand and periods of rising input prices and so on?

This study will be divided into seven sections. Section two will discuss the methodology used in constructing the samples of firms to be interviewed, the logic of choosing the two sub-sectors that were selected for the field research and the questionnaire used to conduct the interviews that form the core of the field research conducted for this study. Section two will also provide a brief review of some of the important current directions in the literature about microenterprises and their relation to the larger macroeconomy and policy environment. Section three will describe the political, economic and policy specific environment in which microenterprises operate in Dakar. Sections four and five will present the case analysis from the firms interviewed in both the garment-making and woodworking sectors. Section six will attempt to draw together the major lessons of the previous two sections by discussing them in the context of the aforementioned research questions and propose policy-related actions that could make a positive contribution to microenterprise development activities. Finally, section seven will provide a conclusion and some thoughts on directions for future research.

## Section II: Analytical Framework

This section is divided into two parts. The first part will discuss the methodology that was designed to carry out the field work for this study which was conducted in Dakar, Senegal on two separate visits; the first of which was during the month of August 1995 and the second was for six weeks during the month of January and part of February 1996. The second part of this section will provide a review of what are thought to be some of the most important directions in the literature on microenterprises in their relation to both the macroeconomy and the overall policy environment in developing countries.

### 1.0 Research Methodology

#### *The sub-sector approach*

The basic approach adopted by this study is one that focuses on industry sub-sectors which is driven by a definition of the input or product and ultimately includes manufacturing, commercial and marketing activities that service a particular market.<sup>1</sup> As assistance programs increasingly target their resources to growing markets, the programmers of such support activities will also be increasingly thinking along subsector lines. The subsector approach emphasizes the forces that influence the competitive position of microenterprises within single subsectors. The approach also seeks to understand the interaction among firms of different size and in different functions, namely, firms at different points along the supply chain.

The sectors that were chosen for this study were garment-making and woodworking. Although different in many respects, firms in both sectors make rather intensive use of imported inputs and have had to face dramatically increased prices for these items since the devaluation. They fill a large proportion of local client demand and there is marked employment growth in both sectors in recent years.<sup>2</sup>

The garment-making sector constitutes the single largest sub-sector in manufacturing microenterprise activity in Dakar. The lion's share of the output coming from garment-making firms is for traditional style clothing that generally can not be purchased in retail

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<sup>1</sup> For a more complete discussion on the importance of sub-sector analysis in designing solutions to microenterprise development, see Boomgard, James; Davies, Stephen; Haggblade, Steve and Mead, Donald, "Sub-sector Analysis: Its Nature, Conduct and Potential Contribution to Small Enterprise Development," Working paper, no. 26, Department of Agricultural Economics, Michigan State University, 1986.

<sup>2</sup> Recent survey work done for the European Fund for Development shows a 237% increase in the number of garment-making firms and a 123% increase in the number of woodworking firms in Dakar alone over the period 1975-1993. Most of this growth however has come since 1986. See Sall, Mahmoudou Bocar; Diouf, Coumba Ndoffène and Senghor, Pierre, "Enquête sur les Microentreprises et les PME de la Région de Dakar," Faculté des Sciences Économiques et de Gestion and l'Institut de Formation Professionnelle, Université Cheik Anta-Diop, Dakar, July, 1995.

clothing stores, which sell primarily imported western style apparel. Most firms are very small, some of them being one and two person operations. It is very rare to see a garment-making firm that numbers, including apprentices, more than twelve people. Some firms do export but this occurs on a largely informal basis with entrepreneurs or family members carrying their goods off to other countries in suit cases. Though local demand is for traditional style clothes which may prove problematic to sell in export markets (this and other points about the sector will be discussed in greater detail in Section IV) the skills of many garment-makers and the high quality of the finished goods suggest the potential for further development of the sector through increasing marketing opportunities abroad.

The woodworking sector is comprised of firms that are more varied in size, skill level of entrepreneurs, the scale at which they produce and the markets for which they produce, though these latter are almost always local markets. The growth paths of these firms can be quite divergent as some firms can achieve virtual full integration through the sale of key hardwoods to the manufacture of finished products, while other firms can produce at a very low scale purchasing their inputs in a piecemeal way and manufacturing on a made-to-order basis while having to outsource for certain specialized tasks.

#### *Constructing the samples used*

There are two samples of firms that form the basis of the field research carried out for this study. Each sample is comprised of firms from the same two sub-sectors. The first sample is of firms that have received some form of credit or assistance from an NGO-administered support program or project. The second sample is obviously composed of those firms that have received no such credit or assistance. Both samples are small and do not constitute anything that approaches a sample size large enough to perform meaningful statistical analysis or make very firm conclusions about the research questions put forth in the preceding section. Close to thirty interviews of firms were carried out in total, of which thirteen were in the garment-making sector and fifteen were in the woodworking sector. Of the thirteen garment-making firms interviewed, only five had received NGO assistance and the remaining eight had received nothing. As concerns the woodworking sector, seven had received NGO related assistance and eight had received no such assistance.

The sample of assisted firms were taken from the internal project documents of two donor funded and NGO administered projects. In each case the donor was the French government (the Caisse Française de Développement) as part of a post-devaluation emergency poverty alleviation strategy of infusing capital into the informal economy. The first NGO project called the Project d'Appui à la Microentreprise de la Médina (PAME), carried out by the Agence d'Execution des Travaux d'Intérêt Public (AGETIP), is a long term micro-finance project working in collaboration with a Senegalese commercial bank (the Compagnie Bancaire de l'Afrique de l'Ouest or CBAO). It is geared to disbursing loans to small groups of small businessmen and women on slightly more generous terms than what is available through the commercial banking system. The

second NGO project was administered by ENDA Tiers Monde (ENDA stands for environment and development action), a local NGO, whose approach was an integrated one whereby microenterprise credit was but one element of a multi-faceted approach to provide the most needed type of assistance (e.g. community health, food aid, sanitation infrastructure and education to women) to distressed communities in the Dakar area in the wake of the devaluation.<sup>3</sup>

It should be mentioned that the field research did not seek to look for or analyze any differential impact made by the assistance received by those firms. Neither the case analysis sections (Sections IV and V) nor the research findings and practical implications section (Section VI) intend to undertake any evaluation of the effectiveness in the delivery of NGO assistance or an assessment of the impact of such assistance. The logic for constructing such a sample in the first place was simply to attain a level of methodological correctness in pursuing the field research, even though no analytical hope or attention will be invested in an investigation of any real difference accruing to firms as a result of the assistance variable.

#### *Use of the questionnaire*

Due to constraints of time in the field, a questionnaire was designed in a more open-ended manner so as to free up the possibility of pursuing certain paths of investigation in an unrestrained fashion. A larger sample size would have been more amenable to a questionnaire that contained more closed types of questions so as to be able to derive a larger share of empirical information. Since however, the samples were going to be of a much smaller size, a questionnaire with more closed questions seemed like a very limiting way in which to pursue the type of analysis that was hoped for. Therefore, the questionnaire that was finally used in the interviews privileged a more open-ended type of approach. Interviews thus came to resemble well directed conversations where certain key parameters were observed (e.g. input costs, monthly operating costs, size and age of the firm, relations with clients, etc.) so as to treat certain issues in a more systematic manner. The questionnaire and interviews sought to pursue certain subjects in greater detail, often at the expense of others, but always in such a way that the questions were consistent with the reality of the business. For instance, if it was obvious that an entrepreneur had only the minimum amount of equipment - such as a manual sewing machine in the case of a garment-making firm or only the simplest of hand held tools for a woodworking firm - with which to run his/her business, then excessive time spent asking the entrepreneur about the level of investments made in technology were simply inappropriate. More time in such a case might be spent asking the entrepreneur about the productivity within the firm with the equipment currently available.

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<sup>3</sup> One of the reasons why there are fewer assisted firms than non-assisted firms - aside from the fact that this is consistent with the reality of the microenterprise landscape around Dakar - is that there was a large element of suspicion and mistrust, particularly on the part of the AGETIP officials running the PAME project. As a result, the assisted firms from AGETIP's records were not made available until the last week of interviewing and thus a fewer number of these firms could be contacted in the end.

## 2.0 Important Directions in the Literature

This sub-section will undertake a very brief review of the academic literature that pertains to the study of the behavioral responses and growth prospects of microenterprises in relation to the larger macroeconomy and policy environment. Rather than attempt to provide a review of the voluminous literature on microenterprises and the informal economy, of which the former are generally considered to be a crucial part, the focus here will be on important current directions in the literature and on where more studies are needed to understand the larger forces weighing on microenterprise development and the factors shaping their decisions.

### *Micro activities as a means of survival: the poverty perspective*

Though micro activities cannot be seen as being exclusively associated with poverty, a sizable portion of those involved in such activities would be considered poor. The thinking about micro activities and how to support them, has long been a part of the larger body of thinking about poverty alleviation efforts in developing countries. Most of the discussion on poverty alleviation has focused on structural poverty resulting from socially created factors such as lack of access to the factors of production and to key services. It is once the debate enters into the causes of such structural poverty, that conflicting opinions are most easily discerned.

Some scholars, such as Bernstein (1992), argue that structural poverty derives itself from gross inequities in the income distribution. Unequal distribution of wealth in turn, is the result of structural imbalances in the social relations of production due primarily to the specific principles governing and organizing power and property, specifically under capitalism.

The World Bank on the other hand sees structural poverty as the result of distortionary policies and the general economic mismanagement that does not allow for a healthy environment to evolve, which would in turn generate productive activity. In its 1990 World Development Report, the World Bank argues that policies geared to encouraging growth reduce poverty whereas policies that impede growth will actually increase it. The World Bank associates excessive regulatory environments, price controls, unreasonable subsidization and excessive taxation with market distortions. One of the main problems here is that the World Bank rejects explanations which suggest poverty is an outcome of an unequal income distribution, nor does it pay much attention to the wider issues of structural changes in production occurring throughout the world economy. Poverty is essentially a consequence of bad state policies, something which can be remedied through “good policies.”

During the 1980s, the World Bank has primarily addressed the issue of poverty in connection with the issue of policy reform, namely structural adjustment. Policy reform, at the macro-level, aimed at curbing market distortions is the key element to the World Bank’s long term strategy to reduce poverty. Thus, improving the basic welfare of the

poor is best attained by creating the conditions that enable them to respond rationally to external economic incentives. Creating these conditions would help reintegrate marginalized social groups into the market economy. At the micro level, the emphasis has been on stimulating labor-intensive modes of production, whether in small-scale agriculture or other micro activities. Growth that increases the productivity of these latter will also reduce poverty.

Whether poverty has increased or not under structural adjustment is an intensely debated issue that exceeds the scope of the discussion here. Since the late 1980s however, the World Bank has recognized that a social component to its adjustment programs has been missing and has urged governments to incorporate social safety nets into such programs as part of a “compensation principle” in recognition of the social costs of adjustment.

One of the key ideas missing in this analytical and often theoretical discussion that acquaints micro activities with poverty is that, in the age of structural adjustment, few serious attempts have been made to better understand the links between changes in the macroeconomy and the impact of such changes both on the supply and the demand side of micro activity in the informal economy. In short, not much is known about how the policy environment in developing countries is impacting on the growth and performance of microenterprises. The typical policy response has simply been to say that more credit is needed for microenterprises. However true this may be, it is a necessary but insufficient measure to deal with microenterprise development, or poverty alleviation for that matter.

#### *The links between the policy environment and microenterprise growth and performance*

Concerning the demand side, a number of studies have made important contributions toward a more complete understanding of some of the impact points of government policies on microenterprises. Haggblade, Liedholm and Mead (1986) have shown that trade policies can play an important role in influencing the demand for micro activities. Export growth can be an obvious way of overcoming small or stagnant domestic markets, however export incentives are often “non-size-neutral” in developing countries. Overvalued exchange rates also inhibit export growth by influencing the relative price between tradables and nontradables, making exports more expensive for foreign buyers and making it less expensive to import. Since tariff protection (often given as a partial compensation for overvalued exchange rates) for domestic enterprises tends to be highest in those sectors or product lines where the largest and most inefficient firms dominate, there is a need for refocused trade policies that can lead to improved import substitution through an expansion of efficient microenterprises. The possibilities for microenterprises to gain market share from inefficient and import-dependent larger firms is especially important in countries where overall domestic demand is weak (Liedholm, 1991). Haggblade, Hazel and Brown (1989) have demonstrated that increased agricultural and rural income, increased production in export sectors and increased income for the poor will create derived demand for labor intensive products, often produced by small and microenterprises. The implication here is that a broad array of demand side policies can

play a potentially significant role in influencing aggregate demand and employment in an economy.

There is also an extensive body of literature on various supply side measures and how they can influence the growth and performance of micro activities, however a substantial part of this literature focuses on microenterprise assistance programs and projects often implemented by donor agencies and non-governmental organizations. With respect to capital, it is well known for instance that government policies, aimed at promoting investment, have had the effect of making capital cheaper for those firms that benefit from them. Examples include subsidized credit which allows firms to undertake capital investments at below market costs. Interest rate ceilings have been imposed to protect borrowers from unrestrained lenders, but such ceilings often make it impossible for lenders to assume the transaction costs of processing many small loans to numerous microenterprises. As a result of the exclusionary nature of much of credit policy in developing countries, microenterprise assistance projects of all sorts have tried to fill the credit gap. Though there is a wealth of such lending experience and a very rich literature, this also exceeds the scope of the discussion. Some of the major lessons in such credit lending have come from a number of the Asian NGOs which have combined such factors as group-lending, non-subsidized interest rates, gradual increases in the lending amount, strict enforcement of repayment conditions and the transfer of parts of the administrative obligations to the borrowing groups so as to reduce transaction costs (Tendler, 1989).

As concerns the labor market, minimum wage legislation - which is designed to put a floor under the wage rate and is geared primarily to affect the wages of unskilled labor - is highly contentious as it is often thought to have no affect on microenterprises and serves only to push up the wage costs of larger firms. Though this conventional wisdom ignores much of the interaction between different parts of the labor market, minimum wage legislation appears to affect that part of labor market interaction that is between the public sector and large parastatal or private firms (Charmes, 1990).

In trying to assess the magnitude of some of the distortions with respect to the supply side of the economy, Liedholm writes,

The labor market, trade regime and domestic capital market factors have tended to induce higher labor cost and lower capital costs for larger enterprises when compared with their microenterprise counterparts, all leading in the direction of higher capital/labor ratios for the larger firms. Taxes operated in the opposite direction, but served only partially to offset these other factors. Although each of these sources of pricing disparity between large and microenterprises by itself can be important, operating together, their effects are generally magnified. In most instances, the net overall impact has been to subsidize the larger firms and penalize the microenterprises.<sup>4</sup>

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<sup>4</sup> Liedholm, Carl, "The Impact of Government Policies on Microenterprise Development: Conclusions from Empirical Studies," in C.A. Rakowski, ed. *Contrapunto*, SUNY Press, New York, pg. 83.

Since size of firms is one of the distinguishing characteristics concerning preferential access or targeting with respect to government supply side supportive policies, Liedholm argues that introducing a more “size neutral” dimension into the overall policy environment could dramatically improve the economic potential of microenterprises.<sup>5</sup>

A number of other studies have tried to theorize about whether government policies are contributing to the expansion of existing microenterprises. Do such policies as government taxes and regulations - particularly those concerning the minimum wage, working conditions, registration and zoning - actually reach those micro activities and subsequently affect their growth patterns and their ability to “graduate” into small and medium sized firms? The evidence on this is particularly weak, however a few case studies (Chuta, 1990; Steel and Webster, 1990 as cited in Liedholm, 1994) have shown some preliminary patterns. First, policy and regulatory constraints appear to be more significant the larger is the microenterprise at the time of its growth. Individual policies and regulations, both positive and negative, did not impact the firm at identical points in time during the firm’s life span (Liedholm, 1994; see also Joumard, Liedholm and Mead, 1992).

Though many of the practical implications that will be discussed toward the end of this study do not involve simply actions that can be taken by the government and do involve NGOs to a significant degree, there is a persistent misperception within not only the Senegalese government, but in many other developing country governments that microenterprises cannot be controlled, regulated or promoted through government policies. The academic literature can make major contributions in helping illustrate both through quantitative and qualitative research how government policies do affect the growth and performance of microenterprises. Microenterprise growth is more than filling the deficit gap - concerning credit and technical assistance - that most of these firms face. More studies like some of those mentioned above are needed to understand better how government policies can help or hinder microenterprise development in developing countries.

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<sup>5</sup> Ibid, pg. 83.



### Section III: The Environment of Microenterprises in Dakar

This section will give a description of the overall environment in which microenterprises are operating by focusing on the economic environment, the political environment and the policy specific environment. The first part will focus specifically on the economic realities since the devaluation and some of the measures taken by the government in the wake of the devaluation to further its economic reform agenda. The second part will focus on an overview of the Senegalese political system and a brief recent history. It will also discuss how the government's more recent development plans have sought to assist microenterprises. The final part of this section will cover the policy specific environment for microenterprises by discussing the various governmental, parastatal, private, NGO and donor institutions involved in formulating policy, strategy and delivering assistance to microenterprises.

#### 1.0 The Economic Environment

This sub-section shall concern itself exclusively with the devaluation since considerable attention was given to the overall macroeconomic and economic adjustment context in the first section of this study. The focus here will be to provide only a brief synthesis of what were some of the anticipated outcomes of the devaluation, some of the short term outcomes, and a few of the accompanying measures implemented by the government.<sup>1</sup>

##### *The devaluation and its anticipated versus its short term outcomes*

The devaluation of the CFA Franc which took place on January 12, 1994 was the center piece of a series of measures comprising Senegal's strategy to achieve economic adjustment. Declining aid flows due to lack of confidence in the country's adjustment course among Senegal's traditional donors was beginning to seriously force the issue. For private entrepreneurs, the overvaluation of the CFA Franc had become a phenomenon that could no longer be ignored. Local producers had realized that it had become impossible to compete with legally imported goods - despite very high customs duties - and as a consequence, importing had become more profitable. As Lubell writes, "a growing number of firms, oriented toward the internal market benefited from special protection offered to them by the government under certain agreements ("conventions spéciales"), began to reduce their level of production in favor of importing, pure and simple."

The economic growth projections coming out of the International Monetary Fund and the World Bank were modest, calling for 2.5% GDP growth in 1994, partly due to negative

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<sup>1</sup> This sub-section relies heavily on work done by Harold Lubell for the Conseil Économique et Social du Sénégal and USAID/Senegal. His paper is entitled, "Un Peuple, Un But, Une Foi: Impact de la Dévaluation du Franc CFA sur l'Économie Sénégalaise: Synthèse des Études." His paper is one of six in a study funded by USAID/Senegal about how the Senegalese economy is responding to the devaluation.

growth in the previous two years, but also to the foreseen temporary contraction in domestic demand. Beginning in 1995, the recovery would begin to gain momentum and real growth would attain 5.5% and continue this way through 1996. Actual GDP growth was 2.0% for 1994, slightly less than the forecasted 2.5%, but higher than the -2% growth rate of 1993. Inflation increased by much less than was forecasted. The GDP deflator was six percentage points lower than projected; 33% instead of the 39% rate charted by the IMF. One interesting and unexpected occurrence was that the devaluation caused higher inflation in the price index of locally produced goods (40%) than in that for imported goods (33%).<sup>2</sup> Though more disaggregated data on what products are responsible for this increase, it would appear that this is precisely the type of local substitution effect that could open up substantial growth opportunities for microenterprises.

Imports were to register an obvious decline in volume and then were to pick up to a growth rate of 3.3% per year over the following years. The actual decline in imports was stronger than predicted, most likely due to the fact that importers in the latter half of 1993 had held on to inventories in anticipation of an eventual devaluation. As a result, customs revenue was substantially lower than expected which helped push the overall budget deficit higher than expected. Public spending was rigorously restrained, including especially a 10% increase in the wage bill in light of a 32-33% increase in the cost of living. Due to increased tourism and expanded exports of traditional commodities, the deficit on the current account was lower than expected.

#### *Government measures accompanying the devaluation*

The government of Senegal was not relying exclusively on currency devaluation to restore growth and competitiveness to the economy. There were a number of measures taken by the government to advance the adjustment agenda alongside the devaluation. These measures concern salaries; both the internal fiscal environment and the customs (or external) fiscal environment; price and trade liberalization; regional integration and social development or poverty alleviation measures. Only the measures concerned with the work force and salaries, liberalization and the prospects for enhancing the competitiveness of firms, and the social and poverty oriented measures will be discussed below.

The negotiations the government undertook with the labor unions to limit salary increases in the modern sector is perhaps one of the remarkable aspects of the post-devaluation experience. Workers in the public sector were given an extra FCFA 15,000 payment immediately after the devaluation and nothing since. The level of the minimum wage was not changed. One therefore has to ask how long the government can ask the work force to accept continued declines in real wages.

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<sup>2</sup> The index registered 146 in August of 1995, 140 in December of 1994 on a base of 100 in December 1993. This is from a study by Leenhardt and Massuyeau, "La Hausse des Prix en Zone Franc en 1994," and is taken from Lubell, op cit, pg. 24.

At the same time as the devaluation, the government sought to increase the level of competitiveness in the modern sector. The strategy for so doing was to *i)* achieve deeper price liberalization both in terms of producer prices for the agricultural sector and in terms of all consumption products (except for 11 goods and services deemed essential); *ii)* make labor legislation more flexible allowing firms to adjust their work force according to their level of economic activity and *iii)* provide a common incentives framework to all domestic firms. These common incentives were created by informing all those firms whose special agreements and protocols with the government had expired; that these would not be renewed. For the other companies that continue to benefit from such special agreements, new agreements were signed denouncing the old ones. This has opened up the door to the suppression of monopolies by reducing certain fiscal advantages and to the further liberalization of imports. One important implication for microenterprises here is that large firms who could previously import certain inputs or goods that would then be sold locally might opt for local sourcing thereby creating important inter-firm linkages and local subcontracting possibilities for small firms and microenterprises. The government however has not concerned itself in any specific way in fostering such dynamic processes.

As concerns the social development and poverty alleviation efforts of the government since the devaluation, the effort has been concentrated on food security for the 34% of the population living in poverty. A so called “social safety net,” funded with FCFA 15 billion was put in place to temporarily subsidize products and services deemed “essential.”<sup>3</sup> The subsidies on consumption were to be progressively phased out and replaced with more targeted programs designed to increase the revenue of poor populations. The work of local NGOs, specifically that of AGETIP, would be counted on to deliver the lion’s share of such programs, particularly those geared to employment creation and income generation. Unfortunately, professional technical training and primary education (basic reading and writing) are relegated to a very low priority in Senegal’s educational objectives. The implication here for microenterprises is that despite their sometimes dynamic character, basic illiteracy inhibits firms from acquiring more rational management methods, improving professional qualifications and opening firms up to certain market disciplines such as continuous quality improvement in goods produced and services offered.

The government’s approach to the economic environment has been mainly one of crisis management at the macro level, geared toward correcting serious imbalances. Scant attention has been paid to how microenterprises could contribute to the process of internal economic adjustment. The following sub-section will provide additional background information on the political environment in which microenterprises work and will trace some of the policy attention paid to microenterprises through the government’s wavering commitment to informal sector development as described in the government’s fourth and fifth development plans.

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<sup>3</sup> The price of rice was subsidized for FCFA 8 billion and flour for FCFA 2 billion. Health expenditures were given an extra FCFA 2 billion support for the purchase of important medicines and the education system received FCFA 2 billion in support for increasing literacy efforts. Lubell, pg. 21.

## 2.0 The Political Environment

Of primary concern in this sub-section will be to first present a brief overview of Senegal's political structure and then to discuss the ways which the government has sought to integrate microenterprises into its national development plans.

### *Overview of the political system*

The Senegalese political system is an amalgam of three very distinct influences. Its political style is part of a legacy of the precolonial era when power and prestige in the northern and central part of the territory depended a great deal upon the number of clients a leader could maintain in his personal entourage. Loyalty and support hinged upon how generously a leader would reward his followers. Islam, plays a crucial part of Senegalese political culture and has ever since the eleventh century. The Muslim leaders, named *marabouts*, are the link between a largely rural and often illiterate population and the urban political elite in a country where political discourse is conducted by a comparatively small westernized intelligentsia. The actual political and administrative structure is inherited by French rule. African tradition, Islam and colonial structures therefore combine to form the basis of the Senegalese political system.

The pre-independence experience with modern French-style politics and administration helps explain why Senegal has avoided much of the authoritarianism so prevalent in other parts of sub-Saharan Africa. However, from the mid 1960s up through the mid 1970s Senegal did experience de facto one party rule under President Léopold Senghor. In the later years of his rule, Senghor did move the country toward greater pluralism as three parties in addition to the ruling Parti Socialiste Sénégalais (PS) were officially recognized between 1974-78. In 1981, under conditions of increasing economic distress, newly appointed president Abdou Diouf lifted all restrictions on the registration of political parties.<sup>4</sup>

By 1988, the political liberalization initiated by President Diouf (who by then had been elected president in 1983) had become a liability for the government's renegotiated medium and long term adjustment program formulated with the help of the IMF and the World Bank, and begun in 1984. During the 1988 presidential and legislative elections, the opposition began to capitalize on apparent "adjustment fatigue" brought on in part by dramatically reduced government expenditure over the 1980s. Campaigning on a promise for change, the opposition, led by the Parti Démocratique Sénégalais made serious inroads in the urban areas capturing over 40% of the vote in Dakar and 45% in the southern Casamance region.<sup>5</sup> Violence broke out as the election results came in and the

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<sup>4</sup> Ka, Samba and van de Walle, Nicolas, "Senegal: Stalled Reform in a Dominant Party System," in Voting For Reform: Democracy, Political Liberalization and Economic Adjustment, Haggard, Stephan and Webb, Steven eds., Oxford University Press, The World Bank, Washington, D.C., 1994, pgs 290-302.

<sup>5</sup> Cruise O'Brien, Donald, "Au Sénégal, Une Démocratie Sans Alternance," Le Monde Diplomatique, April, 1993.

opposition contested those results. The government declared a state of emergency after official cars were burned, government buildings were vandalized and the private property of individuals connected to the regime were looted. The leader of the opposition, Abdoulaye Wade, was jailed but then promptly released and allowed to take his seat in the National Assembly. Nevertheless, a tense situation of civil unrest lasted for over two years.<sup>6</sup> As part of a crisis control strategy, Diouf sought some reconciliation with the opposition parties, which would be needed if his government was going to continue with economic austerity measures as a part of its adjustment strategy. Informal meetings were undertaken between the PS and the other leading opposition parties. This eventually led to the restoration of the post of prime minister. Habib Thiam, a member of the opposition Parti Démocratique Sénégalais (PDS), was appointed prime minister in 1991 and allowed to form a coalition government that included four members of the PDS in Diouf's cabinet and another member of the Marxist-Leninist Parti de l'Indépendance et du Travail (PIT) as minister of town planning and housing.

The 1993 elections were supposed to go smoothly as President Diouf had hoped the electoral reforms his government had instituted would increase the level of popular participation in the election process thereby rendering the results more legitimate. In addition, the government had agreed to the presence of fifty foreign electoral monitors, which was a clear sign of his confidence. Diouf was re-elected with just over 58% of the vote in the February poll and the ruling Socialist Party (PS) obtained 84 seats in the National Assembly (down from the 103 seats gained in the 1988 election) while the opposition combined for a total of 36 seats. The main opposition party captured all six legislative seats from the Dakar-Pikine area, where close to 40% of the population lives and probably would have done far better had voter apathy, particularly among young people, not resulted in low voter turnout. The election results were not ratified by the Constitutional Council for over three weeks after the election, and not before the president of the council resigned in apparent disapproval of what he saw was a corrupt political culture.<sup>7</sup> The elections were also marred by violence in the southern Casamance region where an armed separatist movement, which has been active for years, attempted to halt balloting in that region. Though the President and his ruling Parti Socialiste managed to win the elections, his ability to govern effectively and implement needed reforms will increasingly be a source of concern.

#### *Microenterprises and the intentions of the development plans*

The fourth four year development plan, announced in the mid-1970s, was the first development plan where the government specifically mentioned the informal sector and its microenterprise component. The tone was entirely negative suggesting that these "irregular" firms comprising the informal sector provide totally "unfair competition" to "honest" small firms and moreover that the former are actually inhibiting the development of the latter. However the plan announced twenty or so projects to be

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<sup>6</sup> Ka, Samba, "Uneasy Passage: Senegal in 1993," *CSIS Africa Notes*, June 1993, Center for Strategic and International Studies, Washington, D.C.

<sup>7</sup> *Ibid*, pgs. 5-7.

implemented to help bring about a more “efficient organization of artisans and to raise the qualifications of artisans.” These proposed projects carried a value of FCFA 700 million. At the end of the four year plan however, only four projects had been executed worth some FCFA 100 million.

The fifth plan, conceived in the early 1980s, mentions the term “non-structured” sector and mentions its absorptive capacity, as concerns employment, which helps reduce the employment burden on the modern sector. The plan announced four times the amount of resources compared to the preceding plan that were ready to be allocated to microenterprise and artisan development. This sum would have been twenty five times the amount that was actually disbursed under the fourth development plan.<sup>8</sup> Again, the government called for the importance of having artisans form themselves into “structured groups” or cooperatives and that this would be the best way to achieve the needed improvements in the technical capacity of the artisans in the informal sector. The plan also urged the commercial banks to undertake lending operations to small artisans and announced the government’s intention to begin small scale public procurement programs. The following specific measures were proposed:

- A chamber of commerce would be created for small artisans in each region of the country.
- A national commission charged with promoting the development of the “artisan sector” would be created to help formulate policies as well as closely follow all policies and support activities related to the sector.
- The national commission responsible for the sector would undertake marketing initiatives, including public information campaigns, to develop both at a national and at an international level, the marketability of finished goods coming from firms in this sector.
- Quality control standards would be developed, such as special labels and so forth, to provide legitimacy to marketing efforts.
- Orders for goods under FCFA 5 million would be given to small artisan firms on a preferential basis. The government would undertake additional measures to facilitate the access of such firms to bid for procurement contracts.
- Specially guaranteed lines of credit would be made available through the National Development Bank and would be extended to small firms working the “artisan sector.”
- Adequate funding would be made available to the Center for the Promotion of Artisan Production and Services.

Though none of these measures have been implemented either to the fullest extent possible or in a sustained manner, the Fifth Development Plan did constitute an important recognition on the part of the government about the potentially positive, if not developmental role, that microenterprises can play in the Senegalese economy. The government has since disengaged from a more active support role for microenterprises,

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<sup>8</sup> van Dijk, Meine Pieter, Le Secteur Informel de Dakar, L’Harmattan, Paris, 1986, pgs 36-7.

partly due to some of the political and economic crises over the course of the mid to late 1980s. The following sub-section on the policy specific environment for microenterprises will describe in more detail the current state of affairs.

### 3.0 The Policy Specific Environment

This sub-section will look at the various institutions - government and parastatal, private, NGO and donor organizations - currently operating in Dakar in support of microenterprises. Though there has been an increasing recognition of the importance of microenterprise activity on the part of Senegalese authorities, many of the institutional efforts lack important resources, information is extremely dispersed and a pervasive problem of suspicion exists among many organizations inhibiting needed information sharing. The devaluation however, has forced many of these development institutions to refine their objectives and think more strategically about their actions.

#### *Government and parastatal institutions*

There exists no specific ministry or agency within a particular ministry that is charged exclusively with microenterprise development, regulation or coordination activities. The president has organized two inter-ministerial council meetings, at the cabinet level, in the last three years to come up with concrete action plans to assist in microenterprise development. Most of the government's policy related attention going to microenterprises in Dakar and elsewhere occurs through parastatal organizations.<sup>9</sup> The Ministry of Industry, Trade and Crafts has helped to create in the late 1970s three different parastatal organizations, only two of which are relevant for manufacturing sector microenterprises, S.O.N.E.P.I. (the National Society for the Study and Promotion of Industry) and S.O.N.A.G.A. (the National Guarantee and Commercial Assistance Society). The former agency managed a loan guarantee fund that allowed it provide small loans to microenterprises, and with resources from the World Bank, S.O.N.E.P.I. created the Center for the Promotion of Artisan Production and Services, a small technical assistance training center that developed quite a strong reputation for itself for many years. Both initiatives are now defunct due to a lack of sustained interest and flow of resources from the government.

All policy dialogue or consultation regarding policy or new initiatives coming from the government with respect to the informal sector and microenterprise development generally occurs between relevant ministries (e.g. Ministry of Industry, Trade and Crafts, Ministry of the Economy, Finance and Planning and the Ministry of Labor and Professional Training) and the Chamber of Trades. The Chamber of Trades was created

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<sup>9</sup> During the 1993 presidential campaign, Abdou Diouf, the incumbent and current president, proposed to create a special ministry within the government devoted specifically to the issues of the "informal sector," but this idea was eventually scrapped after the election since the president had already come under much criticism for creating some thirteen new ministries since taking power in 1981. Personal interview with Abdoulaye Cissé, Adjoint Director in the Ministère de l'Emploi et du Travail, July, 1995.

in 1981 as a representative organization made up of small businessmen and women themselves. It represents the interests of small business and microenterprises and meets with the government only at inter-ministerial meetings. Consequently, it has had only three meetings with the government. This however has not inhibited the organization from undertaking valuable technical assistance training programs and working in close consultation with local and foreign NGOs to organize needed credit programs. The Chamber of Trades has worked closely with AGETIP to design the latter's credit programs being carried out through the PAME project (to be discussed below).

Finally, the National Confederation of Senegalese Workers (CNTS), a government sponsored and controlled labor union has been very active in providing specialized training to manufacturing microenterprises, particularly in Dakar. Such technical and managerial training is one of the ways the government of Senegal sees itself best able to contribute to microenterprise development across the informal sector. The most recent inter-ministerial council meeting of June 1995 has placed this issue as a national priority and steps are being taken to create yet a new parastatal agency - operating from and answerable to the Office of the President - specifically devoted to the provision of such training to microenterprises.

#### *Private Sector Institutions*

The private sector institutions whose work concerns, though sometimes only indirectly, microenterprises range from commercial and development banks to research organizations and sectoral associations. As concerns private banking institutions, a number of the larger commercial banks have begun to take an increased role in lending to small entrepreneurs. The Compagnie Bancaire de l'Afrique de l'Ouest (CBAO) has taken a lead role in this regard, underwriting most of the lending activity of AGETIP's PAME project, which is the single largest microenterprise lending project currently operating in Dakar. Crédit National du Sénégal (CNS) - which was formed after the liquidation of several other development banks including the National Development Bank and the Senegalese Financial Company for the Development of Industry, Tourism and the Fisheries - is being urged by the government to come up with an action plan for lending activities to small enterprises, but has yet to implement one. Two long-standing development banks, Banque Sénégal-Tunisienne (BST) and the Caisse Nationale de Crédit Agricole du Sénégal (CNCAS), have many depositors that are microentrepreneurs, but the level of their lending operations to such businessmen and women are still quite small. Private research organizations include the African Social Science Research Council (CODESRIA), the International Development Research Centre (IDRC - Canada), the Institute for Planning and Development (IDEP), the African Center for Advanced Management Studies (CESAG) and a number of others. These organizations, along with a number of NGOs, university, parastatal and donor institutions constitute the backbone of the research that is done on the informal economy, microenterprise survey work and statistical gathering, feasibility studies on credit and other investment opportunities.



There are also a number of sectoral associations such as the National Federation of Senegalese Garment-workers (FENAPH) or the National Woodworkers and Furniture-makers Association. These sectoral associations, dominated by microentrepreneurs, also have a national umbrella organization called the National Association of Senegalese Artisans. All these organizations however are plagued by management and funding problems and are normally bypassed by any agency seeking to provide assistance to the firms comprising these associations. Only USAID has expressed any recent interest in working through these associations. The American agency has an \$800,000 loan and grant program ready to be disbursed to the National Association of Senegalese Artisans but has been waiting for the last ten months to receive concrete project proposals from the latter.

### *Non-governmental Organizations*

Though there are a number of organizations operating in support of microenterprise development activities ranging from small charitable organizations operating within a limited geographical scope to large organizations working throughout the entire country, only two such organizations will be presented here. The Agence d'Execution des Travaux d'Intérêt Public (AGETIP) is a Senegalese NGO that is funded primarily by the government. It specializes in public works projects geared toward employment generation, primarily for young people. It also acts as the intermediary agency that finds subcontracting firms to carry out public procurement projects. Since the devaluation, it received FCFA 2 billion to begin a long-term project of microenterprise lending. This project, called the *Projet d'Appui à la Microentreprise de la Médina (PAME)*, has been in existence for almost two years and has disbursed close to two hundred small loans for a total of FCFA 500 million.<sup>10</sup> ENDA Tiers Monde (ENDA stands for environment and development action) is a local NGO that specializes in community resource mobilization, social development actions, microenterprise credit, community health assistance, food aid, applied economic research, consciousness raising for all sorts of issues and many other things. In short, it is a multi-disciplinary organization involved primarily in fighting urban poverty in the Dakar area. ENDA received FCFA 110 million from the French government for its post-devaluation emergency assistance strategy. Half of this was disbursed to either microenterprises or community development associations according to project proposals submitted to the organization.

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<sup>10</sup> Each loan must be seen as supporting three different entrepreneurs since the project will only finance small groups (three firms usually) of entrepreneurs in a staggered manner. In other words, the second person in the group will not receive his/her money until the first person begins repayment on their part of the loan and so on for the third or fourth person in the group. It is therefore a rather slow and arduous process to receive financing from the PAME project. This process is supposed to serve the dual purpose of *i)* targeting some of the most needy entrepreneurs through a self-selection process whereby it is assumed that only those who are most in need will submit themselves to this process and *ii)* creating intra-group pressure for loan repayment and therefore achieving cost recovery on the part of those running the project. The repayment conditions include a FCFA 5 million credit ceiling, a maximum of five years for full loan repayment for the entire group, zero to three months of deferred payments, a 13% interest rate and monthly payments.

### *Donor Organizations*

The number of donor organizations working Senegal either wholly or partially for microenterprise development is roughly dozen. The major programs and projects are funded and operated by the Caisse Française de Développement and the Overseas Scientific and Technical Research Organization (ORSTOM) of the French Cooperation Ministry; the United States Agency for International Development (USAID); the Ford Foundation; the Japan International Cooperation Agency (JICA); the Overseas Economic Cooperation Fund (OECF, Japan); the German Government Agency for International Development (GTZ); the Friedrich Ebert Foundation (Germany); the Canadian International Development Agency (CIDA) and Swiss Development Cooperation (SDC).

## Section IV: Garment-making

This is the first of two sections that will present case study material from manufacturing microenterprises. This section will focus on those firms working in Dakar's garment-making sector. Part one of this section will outline the most relevant aspects that constitute the structure of garment-making activity for Dakar's microenterprises. Part two will present nine case studies of the thirteen firms that were interviewed for this study. The case studies have been structured so that information will be presented on the following issues: size of the firm and its composition with respect to personnel; the professional history of the entrepreneur; the firm's primary monthly operating costs and those costs associated with key inputs; the level of investment made in technology; relations with clients; the principal problems faced by the firm and any strategies undertaken to overcome those problems. All lessons and implications arising out of the case study material will be saved for Section VI which will draw together the principal findings as they pertain to the core research questions put forth in Section I.

### 1.0 Basic Structure of the Sector and Other Relevant Features

The microenterprises in the garment-making sector constitute a traditional economic activity that has undergone substantial modernization. With the help of the sewing machine and the creativity of many of the garment-makers in the Dakar area, many of the Senegalese prefer to purchase their new clothes from their *tailleur* rather than from a store often selling imported clothes. The Senegalese consumer is therefore able to get made-to-order clothes and customized service from the vast majority of garment-makers in the sector. Only a portion of the increased costs of production since the devaluation are being passed on to the consumer, namely, some of the variable costs such as the fabric which is often purchased by the client. A substantial share of these variable costs are being absorbed by the firm, often by the labor force within the firm. This activity therefore represents a sector that has the ability to offer stiff competition - on the basis of price as well as the propensity to satisfy consumer demand - to both formal sector garment-making firms as well as retail stores specializing in imported clothing.

#### *Geographical dispersion of firms*

A recent 1992 survey of microenterprises in Senegal<sup>1</sup> shows that garment-making is by far the most common of all manufacturing activity, almost 25% of all manufacturing sector businesses in the Dakar region (which comprises the cities of Dakar, Pikine and Rufisque). The greatest single concentration of garment-making firms is in the large and long-standing neighborhood of Médina, which is on the immediate periphery of downtown Dakar. Other large concentrations of garment-making firms can be found near

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<sup>1</sup> see "Recensement National des Unités de Production Artisanales du Sénégal," Ministère de l'Industrie du Commerce et de l'Artisanat (Direction de l'Artisanat) and the Ministère de l'Economie des Finances et du Plan (Direction de la Statistique), Republic of Senegal, July 1992.

the market areas or just off some of the main streets in the neighborhoods of Sandaga, Grand Dakar, Castors and HLM, all of which are on the periphery, toward the north, of the downtown area. It should be said however, that every one of the neighborhoods in and around Dakar has a certain number of garment-making firms. It is just that market size, proximity to suppliers and a larger proportion of middle class clients make the above mentioned areas more central to the functioning of the garment-making sector.

### *Size and age of firms*

The average size of garment-making firms was six people, though a one person operation was not only a frequent occurrence but seemed to be readily observable. There was no firm larger than ten people. The average age of the firms interviewed was seven years with two or three firms that were started over thirteen years ago. It is clear that the more established firms are, without fail, those with a larger number of workers.<sup>2</sup> The composition of the average size firm would indeed vary, but it was almost systematic that the number of apprentices outweighed the number of salaried or skilled workers by a margin of 2 to 1 and sometimes even 3 to 1. The institution of apprenticeship is something that pre-dates the colonial period, even though it is also quite strong in France. Though apprenticeship allows for young children who are not school bound to learn a trade and acquire skills, it also must be seen as a mechanism for the entrepreneur to drastically cut back on his/her own production costs by gaining a virtually free labor supply. It appears to be the younger start-up firms that are using comparatively less salaried labor inputs than do the more established firms in an attempt to keep their production costs as low as possible (see research question number 1). The exact status of labor within a firm however can often be a very blurred issue. This issue will be discussed in greater detail below.

### *Use of apprentices versus salaried/skilled labor*

The reality for most firms in the garment-making sector is that labor is extremely cheap. The microenterprise labor market is remarkably slack and workers often are forced to absorb much of the insecurity of an overall precarious business environment. So called "salaried" workers almost never receive a fixed sum every month as wages are understood, by workers and proprietors alike, to be a function of the level of economic activity within the firm at any given time. A salaried worker can therefore earn anywhere

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<sup>2</sup> Liedholm and Mead report evidence from surveys carried out in Southern and Eastern Africa, that there appears to be an inverse relationship between initial size of the microenterprise and its subsequent growth rate, measured in terms of employment. In other words, the smaller and younger the firm, the faster it appears to be growing. An increasing concentration of output does not therefore appear to be dependent on the initial larger size of the firm. Though no such study of the growth patterns of firms was able to be undertaken here, it is interesting to note how Liedholm and Mead's observation could have important consequences for changing the perception both among policy makers and those in micro-finance work, of the smallest of microenterprises as simply being totally undynamic and characteristic of nothing more than a subsistence activity. See Liedholm, Carl and Mead, Donald, "The Structure and Growth of Microenterprises in Southern and Eastern Africa: Evidence from Recent Surveys," GEMINI Working Paper No. 36, Bethesda, Maryland, 1993.

between FCFA 20-60,000/month. In some firms workers are paid a specified sum per article of clothing produced (see garment-making case study number 1), which is a way for the entrepreneur to pay out salary on a piecemeal basis, something that always goes against the workers.

The difference between a salaried worker and an apprentice in a garment-making firm can be at the same time very substantial and very slight. In almost every instance, a salaried worker is someone who has worked through a period of apprenticeship and acquired the skills of a garment-maker, but who has not gone into business for themselves, generally for reasons of insufficient investment capital which he or she is trying to save up steadily.

An apprentice on the other hand, can be a young person of fourteen to sixteen years totally uninitiated and just starting out learning the learning the trade or an accomplished worker possessing detailed knowledge about the more intricate aspects of the manufacturing process (e.g. measuring, cutting, embroidery and even design). In the latter scenario, the apprentice is often either close to the end of his apprenticeship or is for all intents and purposes considered a worker by the entrepreneur and will frequently be paid in a manner that is commensurate with the work he provides for the firm. In most garment-making firms however, the apprentices receive little more than their training which averages six to seven years. In that time, the apprentice is either living at home and traveling everyday to work for his *maître* (master) who will normally pay for transportation costs and day time meals, or is living with his maître who is assuring his apprentice's lodging, clothing and daily meals. The latter situation however is increasingly rare. Basically, most apprentices ride out this period as best they can making what little savings and acquiring what tools they can along the way while trying to learn as much as possible. Some get lucky with very benevolent masters who will try to pay them whatever they can, while others live on the edge of a very insecure existence. Apprenticeship in this sector is very much a rite of passage to self-employment (see research question number 1).

#### *Professional history and level of education of entrepreneurs*

Of the thirteen garment-making entrepreneurs interviewed only three were women. Two out of those three had no experience working in the actual manufacture of clothing. One had worked in the retail trade of cloth, the other had worked for nine years as a secretary for SOTIBA (Société de Teinture, Blanchissement, Apprêts et d'Impressions Africaines), a state-owned enterprise specializing in the bleaching, dyeing and printing of textiles. Only one of these female entrepreneurs had actual manufacturing knowledge of cutting cloth to specific measurements, sewing and doing detailed embroidery/finishing work. She was also the only one out of all the entrepreneurs interviewed to have received any level of technical training in the garment-making field. The remaining entrepreneurs were not only all male but had all learned about the business of making clothes through an apprenticeship of anywhere between five to ten years. In every case the apprenticeship was in an informal microenterprise very much like their own and set up through personal contacts between families. As an apprentice, one generally learns first how to sew the

cloth that has been cut by specification by their *maître*, or by a hired employee usually with more training. Later they learn the more complex work of measuring, cutting, doing detailed finishing work, including embroidery and, most importantly, how to talk and relate to clients. Most all of them had either never attended school or had left primary school after two or three years to learn the trade. Only one entrepreneur had been to more than six years of primary school.

#### *The nature of local demand/finished goods*

The manufacture of traditional robes or gowns called *boobos* for both men and women constitute the single most important article of clothing made by firms in this sector. A booboo is basically a long gown that drapes the body, falling all the way down to the feet. It is often worn with a matching pant underneath, and, for the women, there is also a matching head dress. Women wear them on a much more regular basis than do men, although it is entirely common to see men, even high ranking government officials, wearing them during the week, and especially on Fridays, which is the most holy day of the week in Islam. What makes a booboo special is a combination of the quality of the inputs - namely, the fabric (a special type of cloth called *bazin*) and specially colored threads - and the special design patterns and detailed embroidery that make each item completely different. There is obviously a premium for each booboo's uniqueness which can make the price anywhere between FCFA 15-200,000. Most of the boobos, as with any other article of clothing, are made on special order after the client usually gives some sort of down payment either in the form of the actual cloth itself or cash, so as to fully or partially finance the purchase of the raw materials (e.g. cloth, thread, buttons, etc.). Most of the firms interviewed make western style clothes as well, but the overwhelming share of the work is for traditional style clothes. Only one firm was engaged in the exclusive manufacture of western style clothes for both men and women.

The level of competition is intense between firms but both the size of the market and the nature of consumer tastes would suggest that this is a sector with considerable potential for development. However, the number of new entrants into this sector has been diminishing the size of the market for all firms involved. This in turn is engendering a process of market saturation and forcing many firms to look beyond the local market to more lucrative marketing possibilities abroad. This raises the question of whether or not booboo manufacturing, but more specifically, the nature of the finished good, can gain a niche in overseas markets? The answer to such a question will lie more likely in the creativity and flexibility of garment-making entrepreneurs on one hand and the availability of marketing opportunities to test their ability to produce for and adapt to overseas market demand on the other.

#### *Local market structure and the market for exports*

The local product market for the garment-making sector is, as has been mentioned above, defined by the manufacture of traditional and western style garments more often than not on a made-to-order basis with the client providing needed down payments either in kind

(fabric) or in cash. A few firms disposing adequate amounts of operating capital or access to credit are able to produce inventories of garments that can be sold for a ready-to-wear retail market. There are no formal marketing mechanisms or trade shows that allow garment-making firms to display their products to consumers, meet with other entrepreneurs and exchange valuable trade-related information. Firms generally attract their clients through personal and professional contacts, an advantageous location, a reputation for producing high quality garments and simply by chance, or by a combination of any of these elements.

The input markets (that for raw materials, labor, credit, etc.) are characterized by an extremely low level of regulation or poor public management in many instances that can make for large swings in the variable cost structure of many firms in the sector. An example of this is the cost of electricity. Some firms with comparatively little electric machinery pay substantially more than firms with six or seven electric sewing machines running close to full capacity (see garment-making case studies numbers 4,5 and 9). The SENELEC (the state-owned and operated power utility) derives electricity bills by estimating consumption over a two month period at the end of which, if actual consumption is below the bill that was paid then a refund is forthcoming, in principle. Another example are the capital inputs used by firms in this sector, namely sewing machines, which have been known to be classified as consumer goods by the government and have therefore been taxed at much higher rates, and sometimes at the same rates as luxury goods. Though labor inputs, as mentioned above, are extremely cheap most of the quality raw materials used in this sector are imported and have undergone substantial price increases. In the vast majority of cases - both in terms of the sample case studies presented here, but particularly across the microenterprise landscape around Dakar - there is a lamentable paucity of credit availability which keeps firms from making needed investments or making incremental improvements to their business. Despite many of these unfortunate characteristics of the local input markets, many firms manage to generate sufficiently large amounts of savings over extended periods of time which allow entrepreneurs to make gradual investments in technology or simply ride out periods of weak client demand (see research question number 3).

The market for exports is totally lacking in any formal structures to actually facilitate the access of entrepreneurs to overseas markets. All export activity in the sector occurs through largely informal means or through personal contacts with friends or often family members abroad. This is to say that either the entrepreneur or someone generally related to the entrepreneur will undertake personal travel overseas with suit cases loaded down with garments to market their own products (see research question number 2). Only one entrepreneur (see garment-making case study number 7) was sending off garments on a regular basis to clients overseas, participating in international trade shows and setting up important contacts abroad. Government apathy with respect to marketing the sector's entrepreneurs, poor information about and excessively stringent requirements for acquiring visa permits for international travel and lack of access to credit all combine to make export activity an extremely under-developed phenomenon across the sector.

### *Relations with clients*

Each of the firms interviewed, with the exception of two and possibly three, would produce their output almost exclusively on a made-to-order basis, *sur commande*, by their clients. The lack of operating capital makes it a virtual impossibility for firms to produce a stock or inventory of finished goods to be sold from the workshop in a ready-to-wear manner. The absence of clients generally means that the sewing machines do not run, workers do not get paid, apprentices receive no on-the-job training and everything basically stops. The pre-existence of client demand therefore acts almost like a supply-side input to the entire production process, since the client provides much of the physical and/or financial material with which to initiate work. Two of the firms that were interviewed had a sufficient financial base or access to credit that enabled the entrepreneur to vigorously pursue an entire commercial side to his/her business; by either using ambulatory vendors who would sell not only in and around Dakar, but in other regions of the country or by actually traveling extensively abroad to sell their finished goods.

Entrepreneurs are generally highly attuned to the idea of serving their clients to the latter's complete satisfaction. Often, the entrepreneur will extend credit to the client who may not have enough money to pay for finished work in the hope of being able to build up a loyal client base. Respecting deadlines and taking all necessary measures to ensure the quality of the work are commonly held principles among the entrepreneurs of the garment-making sector. Failing to respect deadlines on the other hand, seems to be one of the surest ways to lose clients in the end. Some of the factors that would prevent firms from respecting deadlines can be bad financial management practices (see garment-making case study number 1) and the lack of necessary equipment that forces firms to outsource for certain specialized tasks.

### *Barriers to entry and the regulatory environment*

There is scarcely little in the way of legal regulations, permits or licenses that prevent a would be entrepreneur from setting up his or her own workshop and to begin manufacturing garments. Only one entrepreneur (see garment-making case study number 4) had a license for the manufacture of clothing apparel, was in full compliance with all regulations and was paying all three taxes that such firms should in principle be paying.<sup>3</sup> The benefits that accrue to a firm that is in full compliance with the legal and regulatory environment are basically three fold. First, such a firm will have added long term security regarding the very existence of the firm. Second, the firm will most likely be less subject to any police harassment. Third, the entrepreneur will more likely be able to gain credit from either the commercial banking system or through specialized microenterprise credit programs (such in fact was the case in this instance). The strict unobservance of

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<sup>3</sup> These taxes are the professional tax which is a fixed sum, the income tax which is a percentage of one's earnings but is so arbitrarily applied hardly anyone even knows the rate and the tax on sales volume, which is also arbitrarily applied both in terms of the rate used and obviously the level which is taxable.



regulations however and the often arbitrary manner in which they are enforced creates a climate of general insecurity for most firms. Those firms that are in noncompliance with the legal and regulatory environment manage to reduce their operating costs in the short term but are obviously vulnerable to all sorts of police harassment including the possibility of being shut down.

There appears to be a rapidly increasing number of new entrants into the sector; a process that seems not to be able to be controlled (see research question number 1). And the only real barriers to entry that exist are largely the fixed start-up costs of renting a work space and acquiring the equipment.

### *Use of inputs and technology*

The most obvious piece of equipment needed in the manufacture of clothing is the sewing machine. Almost all firms have purchased their sewing machines used which can cost anywhere between FCFA 400-500,000. Prior to the devaluation these machines could be purchased for almost half the amount. The machines are all imported which gives rise to problems of finding spare parts and getting fast and efficient repair work done. There are specialized sewing machines designed specifically for the finishing work that add the detailed embroidery which is done with special high quality and very colorful threads. These used machines can cost upwards around FCFA 500-700,000. Generally, it was the older more established firms that tended to have such equipment, though firms without such specialized machines could still do largely the same work, it can come down to a question of productivity.

The principal inputs used by firms in this sector include cloth, thread, irons and special work tables as well as other more minor items like needles, buttons, pins, hem facing, tape measures, etc. The cloth varies considerably in quality and, therefore, cost. The highest quality cloth called *bazin* is primarily imported from Germany and the Netherlands. It can cost as much as FCFA 4-10,000/meter. There is locally made *bazin* that costs a little less, is of a slightly lesser quality and is not produced in as many colors and styles. More simple cloth called *malikan* comes in a vast array of colors with unique printed styles and usually costs between FCFA 3-6,000/meter. The *malikan* is exclusively produced locally.

## 2.0 Case analysis

### Garment-making case study number 1: Cheikhna Sylla

Mr. Sylla started his business thirteen years ago. His workshop consists of two small rooms equaling about 12-14 square meters in central Médina. He currently employs four salaried workers and trains two apprentices. He learned the trade of making clothes as an apprentice in another microenterprise very much like his own, though he also attended primary school for seven years. He is thirty eight years old. Mr. Sylla started his business after three years of working as a salaried employee of another microenterprise

and saving up enough money to buy a single sewing machine, for FCFA 50,000 in 1983, at which time he rented one of the small rooms he currently occupies and began producing clothes by himself. Today, his firm specializes in the production of European style clothes for both men and women.

No investments in equipment have been made since the devaluation, although Mr. Sylla did purchase a brand new hemming machine in 1992 for FCFA 200,000 and a used electric sewing machine in 1987 for FCFA 300,000. All the investments made in the firm correspond to own source revenue. He owns all of his equipment, which consists of four electric sewing machines and the one hemming machine, and does not outsource to other firms for specialized tasks. The firm's basic monthly operating costs are between FCFA 190-240,000 are divided up as follows: FCFA 25,000 in rent; between FCFA 15-22,000 in electricity; and FCFA 30,000 in mid-day meals for his personnel. His four salaried workers are paid by the number of pants, shirts, blouses, skirts that they produce per week. Prior to the devaluation he was paying his workers FCFA 500/pair of pants while they would cost Mr. Sylla around FCFA 2,000. Today, they receive FCFA 750 while costing him upwards around FCFA 3,500. His workers, who generally are each paid between FCFA 25-40,000/month, are absorbing many of the rising input costs brought on by the devaluation. Because of these potentially large swings in some of these costs like the electricity payments - which are derived through a process of estimation of consumption by SENELEC over a two or three month period - but particularly the salary payments, which are never fixed and are understood by everyone involved to be a function of how much work enters the firm each month, Mr. Sylla does not have a firm grasp on whether or not his business is actually profitable, especially since the devaluation.

As concerns relations with his clients, Mr. Sylla has mentioned that the frequency with which clients would refuse to accept and pay for the finished product has dropped dramatically over the past few years, which according to him, is a testimony of the increased quality of the clothes he now produces. All of his sales are to final users in the local market for whom he produces clothes on an individual basis. He does not think of moving into a more commercial, ready-to-wear, production orientation partly because he does not have the capital to do so, but more so because he does not feel he has the capacity to undertake the additional burden of financial management that such a move would involve.

Mr. Sylla's business is confronted by a few key problems. First, is his inability to implement even the slightest amount of disciplined financial management for keeping track of cash inflows and outflows. Basically, Mr. Sylla is not able to disassociate moneys that have been extended to him by clients as advances for a job on one hand and the many other personal and business related expenses he has on the other. The devaluation has simply made this problem worse for his business as there is simply less cash on hand to meet competing expenses both within the family, his business and from various friends that may ask him for loans and/or favors. When the time comes to buy a couple of meters of cloth to fill an order from a client, he often has no idea where the

money went and has to take it from some place else. This, he says, often makes it extremely difficult to respect the deadlines he promised his clients who can get very angry and never return. Second, is the lack of operating capital. Although he has never sought any type of credit from a bank or special lending agency, he admits that he does not know whether he would be able to manage the money properly so as to be able to repay the principal under whatever the terms may be. He is nonetheless convinced that a substantial amount of credit, say FCFA 5,000,000, would enable him to eradicate the need to use client money for non-commercial ends. If the repayment period was extended over a sufficiently long time frame, he would be able to correct most of these financial management distortions.

The lack of operating capital seems to be weighing particularly heavily on the way Mr. Sylla conducts his business. While trying to contend with the rising input prices that have doubled in many instances (e.g. cotton to make pockets, zippers, hooks and eyes and the many imported cotton blend cloths used to make European style clothes) and trying to meet family financial obligations, Mr. Sylla has brought much financial confusion into his firm. He is fundamentally cash strapped and is trying to squeeze cash from any place he can find. It appears that he is passing much of his rising input costs and cash flow problems onto his workers. He still has no plans to seek out any sort of credit, despite the existence of some limited, though very real, possibilities. He has never given the idea of joining up with any other firms to pursue his interests collectively saying, “the ideas of the Senegalese are not amenable to it [forming associations] ...I’ve never seen an association that works.” Mr. Sylla appears to be waiting for the day when the government will provide him with enough credit on sufficiently attractive terms so that he can clean up his internal financial management problems. In the meanwhile, it appears to be business as usual.

#### Garment-making case study number 2: Martin Memdy

Martin is twenty years old, and is the only salaried worker in a very small garment-making shop inside the market of Grand Yoff, a large town on the outskirts of Dakar. He manages the workshop for his boss when the latter is not available. Martin therefore looks after the ten other apprentices working at the shop. He himself just completed his training after five years as an apprentice in the very same business. Having already saved up enough money on the side to buy his own manual sewing machine, he envisages starting his own workshop sometime in the near future. At three different times in the last ten years, the business has changed location, but always within Grand Yoff.

The shop makes primarily traditional clothing for both men and women. They make boobos for women for anywhere between FCFA 12-20,000 each and special gowns for men for generally FCFA 6,000 each. Most are made on special order by the client who brings the cloth with which to make the item, though roughly 20% of monthly sales are from ready-to-wear articles that are displayed on the three walls in the 9-10 square meter workshop that is completely open to the covered market on one side. Despite the small size of the workshop, the owner has invested quite substantially in equipment. He owns 5

electric sewing machines and two manually operated ones. Two of the electric machines have been purchased, since the devaluation, for a total of FCFA 1.1 million. The shop does outsource to other firms for specialized tasks such as doing hems since they do not have the necessary equipment. This fact is not however suggestive of a lower skill level within the firm, rather a question of equipment they do not own. Martin himself, has within the space of a few years, learned to create his own designs, do the precise measuring and cutting of the cloth through to the sewing and finishing work such as lace or silk cloth overlay patterns and, of course, the embroidery. The firm's monthly costs are fairly low with Martin being paid anywhere between FCFA 20-40,000/month; electricity payments of 17,000; rent of 18,000; mid-day meals for 25,000 and 40-55,000 a month given to the apprentices for their work.

As regards the problems of the firm, Martin cites the more than doubled price increase for special high quality colored threads that go into the finished embroidery work of the boobos they make; from FCFA 2,000/spool, before the devaluation, to roughly FCFA 4,500 today. Also, of particular concern, is the problem of spare parts for the machines. The mini gears that drive the needle up and down through the cloth are especially prone to breaking down and can cost anywhere between FCFA 70-120,000 depending on the machine. Looking outside the firm to the local market, Martin identifies a problem of "dishonest competition" whereby firms accept orders from clients knowing full well that they will not be able to satisfy their orders in the short time frames they tell their clients. Martin welcomes the idea of competition among firms, but believes everybody is trying to make up for the bad business environment since the devaluation by basically telling clients what they want to hear even when the entrepreneur knows he or she cannot get the work done on time. Inevitably work is rushed, shortcuts are taken, deadlines are missed, clients become angry and the reputation of firms in the local market (Grand Yoff) goes down. Clients will continue flocking to Médina to order their clothes.

Martin is convinced of the need to defend the interests of the sector. Of foremost importance is increasing the exposure of garment-makers both to the public, in a marketing sense, and to themselves, so as to be able to exchange ideas, make contacts and gauge the level of quality competition. The creation of an association designed to organize trade shows or marketing expositions is precisely what will contribute to a more healthy garment-making sector in the long term. Of course, much of this is beyond Martin's immediate control. That is why he believes some financing mechanism to allow artisans to borrow the initial investment capital to get their businesses off the ground is especially important.

### Garment-making case study number 3: Mme. Awi Ngom, Diamalaye Couture

Mme. Ngom and her business partner run their garment-making business as a *groupement d'intérêt économique* or GIE (a specially registered business entity). They are located on a principal street in the neighborhood of Castors and have been in business for a total of twelve years, nine of which have been in their current location. They decided to move in 1987 because their previous location near the market place in Castors was full of refuse

from the fish, meat and produce vendors and making the smell so bad passers-by would practically flee the area, she recalls. Mme. Ngom and her partner have hired two salaried workers and engage no apprentices. Each of their two workers was taken on to perform specialized tasks; one in the sewing of the different pieces of clothing and the other for the detailed embroidery. The firm produces primarily women's apparel, in both European and traditional styles, as their principal clients are purchasing cooperatives or other GIE formed by women, who are generally the final users of such clothes.

Diamalaye Couture has benefited from a loan from Terre des Hommes (a Swedish NGO) for the purchase of two electric sewing machines costing FCFA 500,000 each. A loan Mme. Ngom and her partner will have to begin repaying in April of 1996. The firm has two other electric sewing machines purchased prior to 1987, but is still lacking certain pieces of equipment and therefore must outsource to other firms in the neighborhood for the completion of certain tasks, specifically for doing hems.

In her relations with her clients, Mme. Ngom views the respecting of deadlines as absolutely critical to building up trust and a solid client base. For those clients that come in with very little of an idea for what they want, she will often propose specific design ideas, or if a client comes in with the actual cloth which turns out to be an inadequate amount, she will search numerous retail centers until she comes up with a satisfactory match. The firm pays FCFA 27,000 in rent each month, FCFA 20,000 in electricity, between FCFA 80-100,000 in salary to their two workers. Most of what is left over, is either ploughed back into the firm's operating capital or is saved to pay off their loan and to make savings for future investments in equipment. Mme. Ngom, who attended 8 years of primary school and received two years of technical training in the field of garment-making, keeps a diligent record of all incoming cash receipts and expenditures. She can speak with certainty about the firm's slight but nonetheless real profitability in the last two years; FCFA 200,000 in 1995 and FCFA 120,000 in 1994.

Of particular concern to Diamalaye Couture is the combined effect of too much competition leading to market saturation, the declining profitability of local markets, the absence of marketing and export possibilities abroad and the inability to organize and participate in garment-making and textile trade shows. Mme. Ngom and her partner have recently joined the National Federation of Senegalese Garment Workers (FENAPH) in hopes of being able to find a way to acquire the necessary visas to be able to travel to the United States to look for markets and sell their goods. She is already highly attuned to the profit margin that accrues to those who come to their shop and order a large bundle of items to take abroad and sell for themselves after paying only the local price for such goods. Though Mme. Ngom sees the proliferation of small garment-making workshops as rendering the local market increasing unprofitable, she is fearful that any sort of regulation of new entrants into the sector could also bring a tightening of the very slack fiscal environment from which her business and the vast majority of firms benefit.

#### Garment-making case study number 4: Mamadou Sarr

Mamadou Sarr has been in business in central Médina for ten years. His workshop is atypical in the Senegalese context. It looks much like a western style boutique with a sitting room in the front with chairs and newspapers for clients. There is a large counter for measuring cloth behind which is a door which leads to the actual workshop. Mr. Sarr runs the business with his daughter and takes on three apprentices who he insists are all practically salaried employees since he pays them regularly. Mr. Sarr is also a member of the FENAPH and has a license for garment manufacturing from the city of Dakar (which expired in 1993). He pays three sets of taxes; two to the federal government and one to the city of Dakar. He groans, perhaps justifiably, of the near FCFA 260,000 tax bill he pays every year; FCFA 78,000 a year in income tax, roughly FCFA 6,000/month in taxes on sales volume and FCFA 9,600 in municipal taxes to the city of Dakar. The other operating expenditures of his firm include FCFA 30,000/month in rent, FCFA 8-10,000 in electricity payments, FCFA 25,-30,000 in telephone bills and an undisclosed amount paid to his three apprentices. Mr. Sarr keeps a very rigorous set of records of all transactions made for his business.

No investment in the last two years has been made in equipment even though Mr. Sarr did receive a credit from AGETIP's PAME project worth FCFA 2 million. He has six machines and says he has no need to invest in further equipment. He used the credit as operating capital to refurbish and slightly expand his workshop and to make some bulk purchases of cloth for ready-to-wear men's European style apparel in which his firm specializes. He works primarily with imported cotton and cotton blend cloths that can range in price from FCFA 3,500-10,000/meter, which he says constitutes a 35-40% increase since prior to the devaluation. Mr. Sarr is the garment-maker/tailor for a number of clients in Mali, Togo, Gabon and even France. He exports roughly a third of his total monthly output, and expresses a desire to travel to build a larger export business.

According to Mr. Sarr, his firm's problems are best summed up as a question of grossly inadequate financing mechanisms in Senegal to allow for small and microenterprises like his own to invest in technology, expand capacity and meet key operating expenses. He is searching for a long term loan of about FCFA 4-5 million from a number of Senegalese commercial banks. The loan would be used to provide himself with enough operating capital to make major bulk purchases of cloth and other minor garment-making inputs and to more efficiently produce for the ready-to-wear commercial market. He also envisages using a substantial portion of this capital for traveling expenses abroad where he hopes to participate in trade shows and expositions and look for new marketing opportunities. He is confident about his prospects, but is in need of a less risk averse attitude on the part of his potential creditors.

### Garment-making case study number 5: Moussa Diallo

Having just started his own garment-making workshop a little over a year ago after moving to Dakar from Zuiginchor in the Casamance region of southern Senegal, Moussa Diallo is beginning to get his foothold in the local market of Grand Dakar. Moussa is twenty eight years old and recently completed a seven year apprenticeship. He currently runs his business with only one other apprentice. He reveres his *maître* for not only the garment-making skills he learned, but the sense of purpose he feels was instilled in him as a result of his apprenticeship experience. Much of this comes out in Moussa's approach to his clients. "You are there for them and you must respect your every undertaking," he says.

Moussa's business is at the earliest stage of evolution. He has two sewing machines, both of them manually operated by foot pedal, which he purchased for FCFA 20,000 each and two sewing tables purchased for FCFA 17,000 each, while saving up enough money as an apprentice. His skills surpass what he is able to do with the machinery he has in the workshop. For instance, doing buttons, hems and even embroidery on the machines he has now takes far too many labor hours and thus, he chooses to outsource these tasks to other garment-makers in the neighborhood. The embroidery however, is something he completes himself on the machines of other artisans on a pay-by-the-hour basis. The firm's monthly costs are quite low; FCFA 12,500 in rent each month, FCFA 18,000 in electricity, FCFA 3,000 for a night watchman (since the front facade of his workshop can only be partially closed at night) and roughly FCFA 10,000 for mid-day meals. Though Moussa keeps no formal records of his business transactions, he insists he knows what he is making from his work. The numbers he cites on sales volume per month - between FCFA 15-40,000 - do not even cover his monthly costs of over FCFA 43,000 though he insists he manages to find enough work to at least cover his costs.

Of particular concern is Moussa's electricity bill, which is not even really a bill at all. He gets his electricity from some wires that carry it from where there is an actual connection and a consumption meter in one of the neighboring workshops. He therefore pays a said price every month to the individual who is actually leasing that connection from the SENELEC. Moussa's consumption of electricity stems from one light bulb and a small radio and he pays FCFA 18,000/month which is comparatively speaking, a consumption level more commensurate to running three or four electric sewing machines at virtually full capacity. Moussa is not too concerned with the rising prices of cloth in the retail and wholesale markets as almost all of his clients are women who come to him with their cloth already selected. He does however cite an almost doubling in price of more minor inputs such as needles for the sewing machines, stiffener for making collars, buttons and hooks and eyes. The price of locally made colored threads have actually decreased in the last two years, as have some, but not all, locally made cotton cloths such as the malikan.

Moussa recognizes that he has a long way to go to ensure the stability and viability of his new business, but for the moment, is concerned primarily with attracting new clients through displaying the quality and honesty he brings to his work. He mentions how he

would like to eventually move into ready-to-wear commercial-based production. But, to do so he would need some form of credit. What is more, he would also have difficulty in distributing his time and resources evenly with all that he is currently doing. Hiring more labor is not an option, for the time being.

#### Garment-making case study number 6: Keur Serigne Bass, N'garaff Couture

Working in the heart of Médina and running his own business since 1973 after four years of apprenticeship in Kaolack, Mr. Bass is a self-described “grand tailleur.” The firm is perhaps in the best of all possible locations; a few blocks from one of Dakar’s largest open air markets and on a corner of two major pedestrian streets in central Médina. The firm totals ten people - six salaried workers and three apprentices. Like Mr. Sarr (see case number 4), Mr. Bass has invested heavily in equipment and has no further need for capital investment in machines. Since the devaluation, Mr. Bass purchased two brand new machines for a total of FCFA 1.5 million; one that is made specifically for high speed sewing and another designed for embroidery work. He owns four other electric sewing machines, all of which are high quality recognized brand names such as Cornelis, Beurnina and Singer. He owns and does not lease any of his equipment.

Mr. Bass has cultivated a vast social network of clients, friends and social contacts.<sup>4</sup> His firm produces clothes in both European and traditional styles. The boobos he makes can vary in price from FCFA 15-150,000. Considering that it takes roughly 6-8 meters of cloth (usually imported bazin) to make what is called a “grand boobo” comprising the gown, the pants and the matching head dress (for women only), Mr. Bass caters to his clients, especially the women, and thrives off his reputation as one of Médina’s most knowledgeable and sought after garment-makers. He likes to spare no expense with the inputs he uses, particularly the imported bazin which usually cost FCFA 5-6,000/meter but can go as high as 20,000 (which could be purchased before the devaluation for no more than FCFA 12,000/meter) and imported threads which have doubled in price up to FCFA 4,500-5,000 the spool. He spurns the idea of using the less expensive local threads saying, “I have too many clients who are ministers or the wives of ministers to use those kinds of threads.”

What concerns Mr. Bass most is basically what comes down to a capacity utilization problem. With between FCFA 3.5-4.0 million invested in machinery, long periods of flat demand hurt his business more than others. During peak periods, such as before a number of religious holidays, Mr. Bass says that one machine operating at full capacity can generate about FCFA 50,000 in value per week. However, with the FCFA 450,000 in monthly expenses which does not include so called “day to day expenses” (he did not want to give a break down of this figure), he needs to be operating virtually all the time at least half capacity to be able to derive a handsome profit of over FCFA 300,000. If demand falls off any more than that for two to three weeks at a time or more, the firm

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<sup>4</sup> During the course of the interview, Mr. Bass replied three times to telephone calls, was greeted by half a dozen women, some bringing in new orders some picking up their orders and others just to say hello and also by three elder gentlemen, one of which I was told later, was a representative in the national legislature.



could be taking losses of FCFA 100,000 or more. Mr. Bass does not have time for much cost accounting, preferring to do it only when things are working well, if not, he lets it go entirely.

Dramatically increased competition in the last few years from all sorts of small garment-making shops and young artisans who are focusing much more on the quantity of output rather than producing a smaller number of high quality goods are forcing other more established firms to reduce their costs and thereby the margin of profitability in the local markets. Mr. Bass is currently seeking ways to obtain the necessary visas so as to travel overseas in search of new more lucrative marketing opportunities. But such papers are increasingly more difficult to obtain as many Senegalese are hoping to leave the country in search of work opportunities abroad, particularly since the devaluation.

#### Garment-making case study number 7: Mme. Seynabou Thiam, Nabou Couture

Mme. Thiam has been running her own garment-making business for almost to four years in the HLM area of Dakar. Mme. Thiam worked for nine years as a secretary at SOTIBA, the state-owned enterprise specializing in the bleaching, dyeing and printing of textiles. She herself does not know anything about the actual manufacture of clothes and does not know how to sew. However, she designs almost 70% of what she sells. She has hired four salaried workers to produce the clothes she creates. She also has taken on three apprentices, though she does not directly oversee their training. She is actively involved in traveling overseas and participating in international trade shows for garments and apparel and has been doing so for over a year and a half. Most recently she has returned from Libreville in Gabon, Las Palmas in Spain and Utica, New York where she had been involved in not only selling her own goods, but developing import-export relationships with a number of buyers of “exotic” clothing and organizing to make purchases of different fabrics that are not easily obtained in the local market.

Working at a state-owned enterprise allowed her to establish herself in many important ways that later benefited her when she chose to go into business for herself. Perhaps most important was the bank account she had established with the Banque Senegalo-Tunisienne, a bank with a reputation for having many depositors that are small businessmen and women. Through her job at SOTIBA she met a number of Belgians living in Senegal, who upon their departure, began sending Mme. Thiam, moderately priced porcelain to sell in and around Dakar in exchange for large quantities of Senegalese fabric. The money she earned over a period of two or three years from this petty commerce activity on the side along with money she had saved from her salary, plus a FCFA 2 million loan from her bank allowed her to apply for and obtain an import-export card and to obtain a listing on the formal Registry of Commercial Activities. These documents were more than sufficient for her to obtain the necessary visas to begin traveling outside of Senegal to develop the commercial side of her garment-making business. She now sells extensively to Gabon and to Spain and has a number of acquaintances in the USA who she furnishes with ready-to-wear traditional style apparel, primarily for women, who then sell these goods to final users in the US market. In her

opinion, what makes this activity sustainable is the fact that she does not stay beyond the time that has been allocated to her by the visa authorities. Those people that leave on a tourist or short term business visa and try to stay beyond the visa expiration date make it infinitely more difficult for others to obtain visas for international travel whatever the reason.

Mme. Thiam has been able to maintain virtually continuous access to financing both from her bank as well as from AGETIP's PAME project. She has chosen to invest in the commercial side of her business before developing the level of technological sophistication of production. She currently has three electric sewing machines, all purchased prior to the devaluation for a total of FCFA 825,000. Mme. Thiam carries no debts as a result of her borrowing activities. Most recently, she repaid her second FCFA 2 million loan to the Banque Senegalo-Tunisienne and FCFA 1.5 million credit to AGETIP which was used to expand the size of her workshop and for other operating expenses. The firm's costs include FCFA 50,000 in rent, FCFA 17-20,000 in electricity and between FCFA 200-250,000 in salary payments to all four of the workers and to the apprentices.

What is most needed for the firm is, in Mme. Thiam's words, "a client which is sure, financing which is sure and a market which is sure." Mme. Thiam is thoroughly pessimistic about the prospects of continued growth for her firm if she has to rely on the local market in the years ahead. She sees the devaluation as thoroughly detrimental to the prospects of generating any buoyancy in the local market for garments. She has seen apprentices come and go from her firm because they have no other way to earn any decent income other than setting up their own businesses. And the more this happens, the more the local market becomes less profitable. The only way for the Senegalese garment-making industry to develop further is for the government to help small businessmen and women like herself gain access to other markets and to export.

#### Garment-making case study number 8: Mamadou Sow

Mr. Sow has been running his business, which he inherited from his uncle after a number of years of apprenticeship, for thirteen years. He is located in perhaps the fabric retailing center of all of Senegal, called Sandaga in downtown Dakar. Sandaga is now a sprawling market area for everything from imported fabric to used toothbrushes. However, in colonial times it used to be the center of all garment-making activity when the Senegalese garment-makers would come and set up shop in Sandaga and practice their trade after the rainy season was over in their villages and the new season's crops had been planted. Over time, the importance of the actual production of garments has waned slightly, but Sandaga certainly remains the center of the trade in all locally made and imported fabric.

Mr. Sow's workshop is indistinguishable from what are a half a dozen others that are all put together in one giant complex filled with row after row of sewing machines. He only has six machines in this facility, each one being operated by an apprentice. The machines are turning at virtually full capacity since Mr. Sow's firm is totally geared to production

for commerce in ready-to-wear. The semi-communal facility which houses Mr. Sow's workshop and those of almost ten other entrepreneurs is, without doubt, the center of ready-to-wear garment-making production for a large portion of the urban market of Dakar and certainly for an even larger portion of the Senegalese market. Each firm works for and on its own. The firms pay their rent and electricity bills according to how many machines they have installed in the facility (therefore how much space and electricity they consume). Mr. Sow's monthly expenses for his firm are approximately FCFA 100,000 (he did not want to offer a break down of this figure).

Close to 100% of the firm's monthly output is sold as ready-to-wear clothing through commercial agents, paid on commission, who travel to various regions of the country - as well as Burkina Faso and Mali - selling the finished goods through well developed commercial networks using primarily local merchants in different towns and cities across the country. Mr. Sow's workshop produces on a large enough scale so that he can net between FCFA 1,000-1,500 per booboo or doquette (a traditional men's gown that is less elaborate than the booboo) after covering all his costs. He mentions that he hardly accepts any special orders even though the profit margin could be as high as FCFA 4-5,000 per item. Working on special order on a client by client basis simply does not offer anywhere near the sales volume he can realize with the ready-to-wear commerce of apparel.<sup>5</sup> Mr. Sow mentions that the fabric he uses is a locally made bazin fabric, called second choice (*deuxième choix*), which he insists is of a superior quality and less expensive than the imported second choice bazin. Most of the people that buy his clothes cannot afford those made from the first choice (*premier choix*) fabric, and if they could, they probably would not be purchasing it pre-made. Though he may be harboring a trade secret of the Sandaga marketplace, Mr. Sow is the only one to assert that the locally made first choice bazin is actually more expensive than the imported fabric; FCFA 4,500/meter for the former and between FCFA 3,500 and 4,000/meter for the latter.<sup>6</sup>

Mr. Sow's business has never been doing better. The devaluation appears to have brought a sort of client or demand shift in favor of his business; that is to say more people, not just in Dakar, but throughout Senegal are purchasing the less expensive ready-to-wear clothes rather than the custom-made variety that appear to be the core of the business prospects for so many other artisans in this sector. In addition to the six machines in his Sandaga workshop that are constantly turning out clothes, Mr. Sow has another ten machines at his home. The appearance of the workshop resembles a sweat shop with young boys (between eleven and sixteen) cutting fabric and sewing together pieces in a crowded, noisy and poorly lit environment. Unlike other artisans, Mr. Sow has unquestionably achieved a great deal of success in the wake of the devaluation in achieving economies of scale in the production of less expensive ready-to-wear

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<sup>5</sup> While interviewing Mr. Sow, one of his commercial agents stopped by to take, on credit, over 150 articles of clothing for men, women, children in all different colors, patterns and price ranges. The agent selected from what must have been an inventory of over 500 different items that were ready to be sold on the spot.

<sup>6</sup> Not only was there no other garment-maker interviewed that would agree with this, I asked in numerous boutiques that sell all the different categories of the bazin fabric and was told systematically that the imported fabric is from 15-40% more expensive than the locally made fabric.

traditional style apparel and moving it out through a well developed commercial network. Mr. Sow clearly did have some early advantages such as inheriting a number of machines and having very close relations with his suppliers. However, with no borrowed capital, Mr. Sow has been able to build up his firm on the almost exclusive reliance of the local and national markets.

#### Garment-making case study number 9: Ismaila Thiaw, Noflaye Couture

Mr. Thiaw's firm is one of the largest in Grand Dakar. He has been in his current location, across from the marketplace, since 1993. He employs three salaried workers and takes on seven apprentices. He began his business after working as an apprentice himself for ten years in Grand Dakar.

The firm's monthly operating expenses are FCFA 35,000 in rent, FCFA 15,000 in electricity and FCFA 120-150,000 in salary payments. Mr. Thiaw says that the firm customarily nets anywhere between FCFA 30-60,000. After covering his expenses, Mr. Thiaw places saving as one of his greatest priorities. Savings is in fact the key to his business. Savings is in fact what has allowed him to get through the prolonged periods of excessively flat demand in the immediate post-devaluation period. He has also financed most of his investments in machinery through savings; five electric sewing machines and two manual ones. Two of the five electric machines have been purchased used since the devaluation for FCFA 400,000 each. Though Mr. Thiaw is dedicated in his attempts to save profits, he is unable to keep records of revenues and expenses as they occur. His nephew takes care of tracking revenues and expenses, though Mr. Thiaw admits that his work hardly constitutes a rigorous set of records. If business takes a sustained upturn, Mr. Thiaw plans on hiring somebody specially to undertake this work.

Since most clients are looking for a garment-maker who can do high quality work according to Mr. Thiaw, the level of technology that a firm possesses is crucial to being able to perform certain specialized tasks. If one does not have the equipment one can only work for a certain clientele. Mr. Thiaw has constructed a small catalogue or portfolio of his work - in the form of a small photo album of the different range of goods he and his workers can produce - which he often uses to both propose ideas to clients as well as to convince them of his abilities. He mentions how with the elaborate embroidery that is usually done with brilliant colored threads around the shoulder-chest area and the ends of the sleeves on a booboo, that there is a special model of sewing machine (Beurnina 217) that allows for the work to be completed in one day whereas with the machines he currently has such work takes two to three days to complete. The productivity gains that such machinery opens up would obviously allow firms to better fend off some of the price competition coming from younger start-up artisans often working with very little overhead and eager to win over clients with less concern for covering their costs.

Mr. Thiaw's basic problems of needing additional equipment and needing to break out of working exclusively on a client by client basis comes down to a question of long term

financing on attractive terms. Mr. Thiaw, who has been a member of the Garment-makers Association of Grand Dakar (FCFA 1,000/month in dues) for three years has been trying to get a long term loan. The conditions are too strict, notably the FCFA 500,000 guarantee that must be offered up prior to any disbursement. His firm has however been able to benefit from very small loans the Association gives out for bulk purchases of minor inputs (e.g. threads, needles, buttons, pins, etc.), which are purchased at cost by the Association itself. The savings are then passed on to its members. All loans must be repaid within six weeks. Mr. Thiaw and a number of other members are trying to set up a financing structure within the Association that will be able to offer loans that are larger, more long term and with more attractive repayment rates. Negotiations with a number of local banks and NGOs have yet to bring any encouraging results. Mr. Thiaw has also tried to get a loan from the Chamber of Commerce, but his dossier has twice been refused and he is resigned to the fact that if one does not know someone important at the Chamber of Commerce, there will be no favorable action taken.

## Section V: Woodworking

The structure of the presentation here follows that used in the previous section for the garment-making sector.

### 1.0 Basic Structure of the Sector and Other Relevant Features

The microenterprises that comprise the woodworking sector are an extraordinarily varied group of firms. Some have made millions of CFA francs worth of investments in electrical powered saws and other pieces of machinery. They sometimes bid on large scale contracts to provide often hundreds of pieces of furniture, doors or windows for large construction projects like schools, health clinics or private homes. Other firms work only with manual tools to fill orders for generally simple sorts of furniture on a client by client basis. Such firms often have to outsource to others that have certain pieces of equipment to accomplish specialized tasks. The sector is not characterized by the same level of intense competition caused by widespread proliferation of firms as in the garment-making sector. However, with the extensive use of apprentices in the woodworking sector - who ultimately seek to go into work for themselves - there is a risk of a similar trend along these lines.

#### *Geographical dispersion of firms*

Due to the larger amount of space required and noise generated by this activity, most firms tend to be found in neighborhoods on the periphery of the city, primarily to escape harassment by the police for reasons of non-compliance with required permits and licenses. The areas with the largest concentrations of firms include Grand Yoff, the Parcelles Assainies, HLM and the Corniche section of downtown Dakar which is near the special artisan village called Soumbédioune. According to the 1992 survey of microenterprise activity in Senegal carried out by the government (see note 1 in Section IV), the woodworking sector accounts for 6% of all microenterprise manufacturing activity in the capital city. Because there are comparatively fewer firms, clients generally have to travel to these particular neighborhoods to deal directly with the artisan himself. Transportation costs therefore can be quite heavy for the entrepreneurs who often have to travel as many as 10-15 kilometers in crowded and painfully slow taxi vans to the major lumber yards found in the so called industrial zone situated on the road that links Dakar to Rufisque.

#### *Size and age of firms*

The average size of woodworking firms is larger than that of the garment-making sector, ten people in the former to six in the latter. It is also true, as in the garment-making sector, that the older the firm the larger the number of personnel. This, however, can be misleading as the use of apprentices is even more important among the woodworking

firms. It is not uncommon to see a woodworking business that numbers fourteen workers and is comprised of the owner and his thirteen apprentices. The more established entrepreneurs are generally those who have a larger network of social contacts, clients and friends. As a result, many parents entrust their children (usually a boy) to such an entrepreneur in hopes that the child will learn a respectable trade and acquire a sense of accomplishment. Apprentices generally outnumber salaried workers by 5 to 1. In no firm were there more salaried workers than apprentices.

The average age of firms is 13 years and although this seems rather high because of two possible outliers in the samples - two firms interviewed had been around for 20 and 32 years - the potential for such firms to serve larger segments of the market because of a lesser degree of market saturation means that woodworking firms seem to have more staying power and are generally more stable.<sup>1</sup>

#### *Use of apprentices versus skilled/salaried labor*

As mentioned above, firms in this sector tend to use a great deal more apprentices than salaried workers, which for the purposes this discussion will also mean skilled workers. This distinction however is far from clear. First, because virtually none of the so called salaried workers receive any sort of weekly or monthly pay check. Payment is usually in cash, but sometimes in kind and sometimes in both. What is more, remuneration is generally a function of the volume of work over a given period. If there is no work, the personnel simply do not get paid. Even when the work is quite stable, the level of remuneration generally is not as salaried workers are paid commensurately with cash receipts entering the firm. There is the same mutually shared understanding among workers and entrepreneurs, as in the garment-making sector, that remuneration simply cannot be any other way since the nature of the business environment is so uncertain. According to their skill level, salaried workers generally receive on average FCFA 30-55,000/month.

A second reason why the distinction between apprentices and salaried workers is a blurred one is that apprentices are often highly skilled and do in fact receive a certain level of remuneration for their work. Customarily, apprentices work between five to seven years before receiving some formal certification that they have had a sufficient background in the trade either to be able to be hired as a worker in another workshop or to go into business for themselves. In that time, the apprentice has learned all the

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<sup>1</sup> The availability of data on firm births and firm closures in this or any other sector is for all intents and purposes non-existent. The evidence presented by Liedholm and Mead from Southern and Eastern Africa shows a strong inverse relationship between the age of the firm and the firm closure rate for manufacturing sector microenterprises. The authors, citing survey work from Swaziland, Zimbabwe and Kenya, show that over 50% of closures take place by the end of the firm's third year. Though it is impossible to say anything of that nature here, it would be important to do such empirical work in order to assess just how stable are the firms in the woodworking sector. See Liedholm, Carl and Mead, Donald, "The Structure and Growth of Microenterprises in Southern and Eastern Africa: Evidence from Recent Surveys," GEMINI Working Paper No. 36, Bethesda, Maryland, 1993.

different facets of the business; initially, working with all the manual tools (e.g. hammer, saw, drill, plane, lathe, etc.) up through some of the electric ones such as belt and circular saws and later learning complex measuring, some drafting and finishing work such as varnishing and applying lacquers, all the while observing the ways in which his master talks, relates to and reassures clients about the financing and other details of the job. It is not uncommon to find apprentices possessing all or most of these skills and who have the confidence of the entrepreneur to be entrusted with the entire operations of the workshop. Such apprentices can be paid FCFA 10-30,000/month. Despite varying skill levels, the entrepreneur will generally pay each of his apprentices some money at the end of the month to reward them for their work, usually between FCFA 2-6,000 and sometimes as much as FCFA 10,000. This compensation however is not what enables the apprentices to sustain themselves. In most cases, apprentices are living at home and travel everyday to their master's workshop. Usually, all the apprentice's transport and mid-day meals are taken care of by the entrepreneur. It is more common in the woodworking sector than it is in the garment-making sector to see the entrepreneur actually providing for the lodging, clothing and complete meal needs of his apprentices, although this practice is beginning to wane. The apprentice tries to save what money he can over the course of his apprenticeship (usually between six to eight years) so as to purchase some of his own tools before, in most cases, going into business for himself.

The implications of the more widespread use of apprentices, as mentioned above, in acquiring labor inputs for firms in this sector are that entrepreneurs can generally keep some of their labor costs down, but this will most likely feed a process of horizontal employment growth in the sector as more and more apprentices have to leave their master's workshop to go into business for themselves simply to sustain themselves. This in turn appears to be depressing the market for skilled labor (see research question number 1).

#### *Professional history and level of education of entrepreneurs*

Of the sixteen woodworking firms interviewed, there were no female-run businesses. In every instance, the entrepreneurs had learned the trade by working as an apprentice in a workshop similar to the one they themselves own today. As is the case with the garment-making sector, most entrepreneurs either never attended school or ended up leaving primary school after a few years. In the case of six entrepreneurs they had learned the trade from their father or uncle. This family relationship, as will be explained in more detail below, was of critical help in getting the firm to its current stage of development, mostly through the inheritance of a piece of land or an actual workshop, receiving important tools or simply needed investment capital. In only one of these six cases did this special family relationship involve the outright inheritance of the firm from another family member.



### *The nature of local demand/finished goods*

The manufacture of furniture usually on a client by client basis is the most fundamental feature of local demand for firms in this sector. The items that are in the most demand are wooden bed frames, tables, armoires, book cases and wall units, arm chairs and wooden skeletons for sofas. Because of the financial constraints most firms have experienced since the devaluation, combined with the often small size of the workshop, firms are not able to buy enough wood to manufacture even a small inventory of furniture to be displayed in a show room. Firms that have built up a large client base over time, have invested substantially in large diesel or electrical powered table saws, belt and skill saws and have a ready supply of skilled or semi-skilled labor are able to bid for and win large contracts - often put out by AGETIP, acting as the intermediary between the financier of the work and the firm, often a microenterprise, carrying it out - to build either furniture (e.g. chairs or desks) or more often doors and window frames for what can be a school construction project, a community health clinic or any other sort of facility. These contracts can be extremely lucrative and help to ensure the financial viability of the firm for months at a time, but they are often poorly managed by the intermediary agency. This latter point will be discussed in further detail below.

Since the unit price of most of the goods produced in this sector is often higher than what a client might spend on a single article of clothing, demand for furniture can go completely flat for extended weeks. In other words, the income elasticity of demand for such goods is probably greater than one (in absolute value) though no formal measurement has been made along these lines.

### *Local market structure and the market for exports*

The local product market for woodworking firms, unlike for those firms in the garment-making sector, has a few distinct segments as alluded to above. First, there is the market for furniture that is produced on a made-to-order basis with clients providing the necessary down payment so the menuisier can initiate work, generally by going and purchasing the raw materials. Second, is the local construction market (*travail de chantier*) which customarily involves the production of doors and window frames for buildings or private homes. This market is thought to be the most lucrative, but it is also the market that is the most difficult to enter since there are *i*). important levels of technological sophistication that firms must have to be able to produce these items on a large enough scale in the required time frame and *ii*). information bottlenecks pertaining to what the bidding procedures are for large public sector contracts and how to go about doing so. Third, is the market for machine woodworking (*machinage*) which consists of filling the equipment needs of other woodworkers who do not have certain pieces of equipment and must outsource to those that do. Again, this market is circumscribed by a certain level of technological capacity within the firm. Though this market is more of a byproduct of possessing certain pieces of machinery (e.g. table saws, belt saws, routers, planers, etc.), it can be an extremely important source of revenue for the firm that can allow it to ride out long periods of flat client demand for furniture production or in some

instances can keep the firm operating at full capacity for equally long periods (see research question number 3).

The local input markets are characterized by the same low level of regulation as in the garment-making sector that makes for extremely cheap labor inputs as mentioned above and often very high fixed and variable costs which can differ in an almost arbitrary manner. Examples include the price of land rents which in many neighborhoods are clearly speculative with no apparent protection or recourse being offered to the entrepreneurs renting the property. Rents can be raised whenever the landlord chooses or as often happens, the landlord will inform the current tenant that he/she would like the property back to occupy it or build on it and then rents it out again to someone willing to pay a higher price. Another example of poor or totally absent regulation that can adversely affect the cost structure of woodworking firms are the apparent wild swings in the price of imported hard woods available on the retail market in local *dépôts de bois*. The price of such woods has gone up dramatically since the devaluation - in some instances between 150% to over 200% - and entrepreneurs waste a great deal of time shopping around for the best price for some of these woods. Though it is impossible to say whether this is due to the customs environment, the small wood merchants running these small lumber yards or a combination of the two, it would appear that some modest price regulation could go a long way toward both harmonizing and reducing many firms' variable costs.

Only a handful of firms interviewed have ever done any exporting. Those that have done some exporting (see woodworking case studies numbers 7 and 9) have done so on a rather informal and personalized basis with clients in other neighboring countries. Firms seeking to export have to contend with important logistical and customs issues that can act as a brake on the development of export activity in this sector. As in the garment-making sector, government apathy with respect to marketing the sector's entrepreneurs and the pathetic credit environment combine to make export marketing for woodworkers a non-issue. It would appear that the development of export possibilities will hinge on the development of collective structures of woodworking firms grouping themselves into marketing consortia so as to articulate a clear demand for other facilitative measures that could be taken by the government such as reduced freight carrying charges on the rail network and through maritime transport. A second step would be to think about developing export marketing initiatives along regional lines.

#### *Relations with clients*

Building up a very large client base is not only possible in this sector due to the smaller number of competitors, it is quite crucial for the long run viability of the firm. Key to building up the client base is the entrepreneur's reputation for quality and the fairness and honesty he displays in his relations with his clients.

One of the major sticking points in firm-client relations has been brought about by the dramatically increased prices for imported hard woods since the devaluation, which the

client knows nothing of, but which obviously affects the cost structure of the firm. The client often knows (through hearsay) what an item used to cost - prior to the devaluation - and can often be overly insistent on getting a pre-devaluation price. The entrepreneur on the other hand, knows what it costs to produce an item. Thus, he is often placed in the situation of either refusing to produce such an item below its marginal cost and upsetting and possibly losing that client to somebody else - often a start-up entrepreneur eager to attract his own clients - who may be willing to accept the job for that much less, or accepting the job knowing full well he may not be able to cover his own costs. Another problem area can once again be due to the higher unit costs of the items produced in this sector, which after the work is done can often mean that the client does not have enough money to pay the balance due on the pieces he or she ordered. As in the garment-making sector, the client usually supplies an advance (in this instance, cash) so the entrepreneur can finance the purchase of raw materials. Hence, there is usually a certain sum of money that is outstanding upon completion of the work. Again, if the client is unable to pay the balance due, the entrepreneur is faced with the situation of letting the client take the goods and extend credit to him/her or holding onto the goods, storing them in often scarce space and probably risk damaging his relations with the client.

#### *Barriers to entry and the regulatory environment*

As is the case in the garment-making sector, there is relatively little other than the fixed costs of the work site and the equipment that keeps someone from going into business for themselves as a *menuisier*. However, the incidence of firms escaping the fiscal environment for extended periods of time is substantially lower in the woodworking sector than in the garment-making sector. In light of the fact that some of the firms interviewed had been in existence for as many as fifteen years or more, semi-permanency has come with the price of more compliance with the regulatory environment.<sup>2</sup> Of the six firms that had been in business for fifteen years or more, none had a license or permit for their activities but four were paying the social security tax, five were paying the professional tax and three were paying taxes on income. None of the other firms were paying any taxes - except the professional tax - which is collected by officials circulating between the different neighborhoods of the city.

There has been no movement to restrict the number of new entrants into the woodworking sector, either informally on the part of other firms in the sector, or formally on the part of the police or other authorities enforcing the need to have a permit or license. As mentioned earlier, the largest single obstacle to business entry in this sector is the financial one of acquiring the work space and the capital to make the needed investment in tools and equipment.

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<sup>2</sup> Since there is no regulation to speak of as concerns environmental, product liability or worker safety sorts of issues, compliance with the regulatory environment is taken to mean whether firms have formal permits to undertake their activities or are paying taxes. Respecting the minimum wage is also not an issue.

### *Use of inputs and technology*

Exercising this trade can be quite capital intensive. As an entrepreneur, one is always dealing with imported inputs, primarily hard woods imported from other countries in the CFA Franc Zone such as the Ivory Coast, Cameroon and Gabon. The price of the principal hard woods used in this sector (dibetou, fraccé and red wood) have doubled and in some cases tripled in certain smaller lumber yards, called *dépôts de bois*, as a result of the devaluation. Why this price increase has been so substantial is information that has not yet been ascertained. Almost all of the manual tools such as hammers, saws, screw drivers, tape measures, vices, lathes, pliers and the like are imported. So are most of the more minor hardware items such as nuts, bolts, screws, hinges and some lacquers and varnishes. The most capital intensive technology used in this sector is the electrical and diesel powered table and belt saws needed for special cuts, following more difficult lines through the wood. They can also do detailed layered cuts with special detail. Such machinery is always imported, usually from Italy, and generally purchased used for anywhere between FCFA 4-5,000,000 and sometimes FCFA 6,000,000. Such machinery prior to the devaluation would cost FCFA 2-3,000,000. To purchase new machinery is simply out of the question for virtually all micro-entrepreneurs.

### 2.0 Case Analysis

#### Woodworking case study number 1: Ousmane N'diaye: Entreprise de la Mosquée

Ousmane is a young, very industrious menuisier (woodworker). He has been running his own business, located in the HLM section of Dakar, for five years. Ousmane, now thirty years old, started his business with the order of a few simple pieces of furniture. The money he earned from that job as well as some money and tools he managed to accumulate while an apprentice in another small workshop allowed him to start his own business. Ousmane also attended school through his second year in secondary school (lycée). His business now totals twelve people, eight of whom are apprentices and four who are part-time paid workers. The workers he takes on are not always the same because they often ask for the money for a given job upfront and then sometimes produce unsatisfactory work.

Most of the output of the firm is geared to the production of furniture on special order. Some of the goods most frequently produced in Ousmane's shop are bedroom sets (wooden bed frame with attached night tables), book cases, armoires and cabinets. Ousmane recently completed a contract to provide 200 doors for 10 schools in the local area, a contract that he received through some retired woodworkers in the neighborhood with whom he maintains very close social and professional ties. The tools with which Ousmane and his personnel work are exclusively manual. In order to achieve efficiency and in some instances quality, Ousmane will take a piece of wood that needs to be cut in a particular way or larger quantities of wood that would take too many labor hours to cut manually to a nearby woodworker who has a number of table and belt saws that can not only cut but also shape the wood both quickly and in the sought after number of ways.

The charge is usually between FCFA 40-50/minute. The use of these electric-powered saws and wood shaping machines is one of the single most important inputs to production for not only Ousmane's shop but for any other woodworking firm that does not own one, according to Ousmane. The hardwoods that the firm uses are, generally speaking, all imported from other African countries (e.g. the Ivory Coast, Gabon and Cameroon). He generally pays about FCFA 240,000 per cubic meter of imported red wood from the Ivory Coast and FCFA 340,000 per cubic meter for imported dibetou from Gabon. He says the price of these woods have gone up by close to FCFA 150,000 for each of them since the devaluation.

Ousmane knows he is very young in comparison to other woodworkers in the area and is very conscious about developing his reputation for producing quality work at a fair price. He realizes that by trying to drive down the price of whatever order is pending with a client he will end up damaging his relations with more established firms in the area. For the moment, he insists, all he is trying to do is make a name for himself as someone who manufactures quality products. He is meticulous in his cost accounting and therefore will not take jobs where he will be unable to cover his costs, but he will not charge too much for his work either as he believes it will drive clients away.

Having received a FCFA 250,000 grant from ENDA Tiers Monde to expand the size of his shop, Ousmane is now hoping to find an agency or bank willing to lend him upwards around FCFA 3 million so as to finance the purchase of a multi-functional table saw. Ousmane is persuaded that with such a machine he would be able to undertake jobs of any scale and degree of sophistication. What is more, he would be able to gain extra revenue by allowing other artisans to rent the machine on a fee-for-service basis and he would likely attract more clients who would be convinced of his abilities seeing that he owned such equipment. Attracting clients, according to Ousmane, is fundamentally a question of reputation and perception.

### Woodworking case study number 2: Doodoo Thior

Doodoo is the head worker for a woodworking firm located in central Médina for the last seven years. He is thirty two years old and acquired his skills working first as an apprentice and later as a salaried worker in three different firms. The firm for whom he now works is geared either to the production of furniture or to receiving other woodworkers who need wood cut or shaped on either the firm's electric belt saw or its multi-functional table saw. In periods where demand for the furniture production side of the business falls off, Doodoo, his two other co-workers and the six or seven apprentices, will generally have enough full time work filling orders from other menuisiers for special cuts of wood on the firm's machines to keep the firm quite healthy. The charge to other menuisiers is FCFA 50/minute if one is an *habitué*, if not, the charge can be FCFA 75/minute. Irrespective of whether one is an *habitué* or not, the firm has taken upon itself to set up a number of amenities to facilitate what may need to be done when other artisans bring large quantities of wood that need to be cut. Since there is sometimes a long line of artisans that need their wood cut or shaped on the machine, a line that can take hours and

even spill over into the next day, wood can be locked up and stored safely in the workshop. Drawing tables have also been set up if there are any modifications that need to be made in measurements or lines to be cut.

Most of the output of the firm is either furniture on one hand or doors and windows on the other.<sup>3</sup> Most furniture involves many small inputs such as screws, nuts, bolts, hinges, brass handles, knobs, pegs, varnish and lacquer and is therefore very time consuming. Doors and windows on the other hand demand comparatively little in terms of minor hardware type inputs - often the hinges, locks and knobs that go with these items are understood to be supplied by the client for reasons of style preference - and can be manufactured quite easily with the machinery available in the shop. With the partial exception of the varnishes, lacquers and wooden pegs none of these inputs are manufactured locally and have all risen substantially in price. As concerns the other major inputs in the trade, namely the imported hardwoods, the firm buys dibetou today for FCFA 375,000/cubic meter, whereas before the devaluation it would cost roughly FCFA 200,000/cubic meter of fraccé can be purchased today for FCFA 275,000 while before the devaluation it would cost generally FCFA 135,000. Planks of these woods can be bought from local wood dealers in the neighborhood for roughly FCFA 7,000. They can be had for almost half the price at the big lumber yards over in the industrial zone (12-15 kilometers away), but the time and money spent on transportation erase any potential benefits.

Of primary concern to Doodoo is the proliferation of all sorts of new woodworking firms where, in his view, more and more people are practicing the trade simply as an income generation activity rather than out of appreciation for woodworking itself. This is beginning to bring about, a decline in the quality of output and a decline in the reputation of the sector itself. What Doodoo would prefer is to see the government become more involved in the regulation of the woodworking sector in terms of quality control, but particularly by making sure that apprentices who leave certain firms are not setting up their own businesses and are at the same time unqualified to do the work well enough. If such government involvement would mean that less firms would be able to escape some of their fiscal responsibilities to the state, that would be all right if it meant that there might be increased opportunities to work as a skilled/salaried worker with social security benefits and the like (see research question number 1). This would certainly be preferable to the current situation where there are an ever increasing number of dispersed woodworking firms finding it increasingly difficult to ensure quality and stability in their own work.

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<sup>3</sup> The client that comes asking for doors and windows to be made is either someone with a large contract for some construction project or new facility that is being built and is seeking someone to whom he/she can sub-contract the doors and windows part of the job, or is someone who is building a house and is basically looking for someone to build and perhaps install the doors and windows.

### Woodworking case study number 3: Abdoulaye Seck

Abdoulaye Seck and his brother, Boubacar, have been running their own workshop for almost two years. They are located a few blocks away from where Doodoo (case study number 2) works on the edge of Médina. Each is close to thirty years old. The firm works with five apprentices and no salaried workers. The brothers learned their skills in another microenterprise as apprentices for six years. The workshop consists of a square room not more than nine or ten square meters. There is no electricity, hence most of the measuring, cutting and assembling of furniture takes place on the sidewalk.

The monthly costs of the workshop are exceptionally low for a firm in the woodworking sector. Abdoulaye says the firm's costs come to FCFA 30,000/month, which are primarily rent. Though his apprentices do not receive compensation for their work, Abdoulaye does pick up their transportation, food and lodging expenses.

The tools that are used within the firm are manual of the simplest kind, many of them acquired during years of apprenticeship. No investment has been made in the firm's equipment or improvement of the work space. Despite the simplest of tools and a less than amenable working environment, the firm has managed to turn out fairly sophisticated furniture such as armoires, bedroom sets, arm chairs, cabinets and book cases. On only two occasions have clients actually refused to take delivery of the furniture they ordered. Abdoulaye maintains that this has had a very positive effect on keeping the firm focused on the production of quality goods. Abdoulaye and his brother need financing for both capital investment in equipment and expansion and refurbishing of the workshop. They are however lacking in any information about where to go to even try to find such financing possibilities. Though they do not have the ability to keep formal records of their revenues and expenses, they believe that their activities are keeping up with their costs. There is, however, little room for savings and they are a long way from being able to afford the type of investments they are in need of making. The objective for the moment is to try, through various social and professional contacts, to gain new clients while building up a reputation for themselves as quality furniture makers. They do believe the government should become more involved in helping small woodworkers through setting up public procurement contracts that could allow small firms to move beyond the initial instability of a weak client base.

### Woodworking case study number 4: Pap Ka

Pap Ka is a forty six year old woodworker who runs one of the most integrated of all the enterprises interviewed. His father started a small business selling wood in small quantities (*dépôt de bois*) in the HLM section of Dakar in 1978. Eleven years later, Pap took over both the wood retail business, and also began his own woodworking shop next door. Pap learned the trade of woodworking as an apprentice for five years in another firm followed by another three years as a hired worker in another small woodworking firm nearby. The firm currently numbers six of which there is one salaried worker and

four apprentices. There are also two or three members of the family working for the business, but it is unclear what their status may be.

The firm has invested heavily in capital equipment. All seven electrically powered machines were purchased used but all at the same time for an undisclosed amount of money.<sup>4</sup> The machinery was purchased in late 1990 with money that had been earned from the father's wood retail business. Thus, the firm today acts as a supplier to other firms both as a retailer of wood and for the equipment needs of other woodworkers who do not own some of the important machinery for more complex cutting, shaping and drilling of wood. His firm will currently sell wood by the cubic meter unlike other *dépôts de bois*. The cubic meter of imported *fraccé*, which is generally the most in demand, will cost him FCFA 245,000 from his wholesale suppliers. Imported red wood will cost him approximately FCFA 345,000 the cubic meter. The prices for which he resells these imported hardwoods are something he will not disclose. He confirms, however, that the price of these and other imported hardwoods have almost doubled since the devaluation. The firm keeps rigorous records of all cash inflows and outflows related to both sides of the business.

Though Mr. Ka is persuaded that there are not many other *dépôts de bois* or even many other woodworking firms that can seriously compete with either side of his business, especially in terms of price and quality, he does note the rapidly increasing number of new such businesses in the area. Citing a drop-off in the number of clients in the last two years in particular, Mr. Ka insists that business is not working as well as it used to. The clients who used to have to walk thirty minutes to his workshop now find either a *dépôt de bois* or a woodworking shop closer by.

The monthly costs of operating his business are on the order of FCFA 140,000; FCFA 40,000 in rent, FCFA 40,000 in telephone expenses, FCFA 30,000 in salary expenses to one salaried worker and roughly FCFA 25,000 in electricity. Even with the increased number of firms now competing for clients whose purchasing power has been cut drastically in this post-devaluation period, the firm is still able to be profitable. Depressed client demand and increased saturation of the local market make Mr. Ka look favorably toward the idea of public procurement programs where government could be doing something fundamentally developmental for the sector as well as being assured that it was getting a very good deal on whatever it was interested in getting (e.g. doors, windows, school desks, book cases, etc.). His firm has yet to bid on or take part in any such contractual relationships with the government even though it is well placed to do so.

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<sup>4</sup> The machines purchased were a circular saw, 2 belt saws, a router, planer, joiner, a skill saw and a combined drill press. The retail price of purchasing such machinery separately, even used, would most likely be on the order of a FCFA 10-12 million investment, possibly as much as FCFA 15 million. However, it is also possible that such machines can be purchased from the local authorities in the industrial zone that auction off such machinery for firms that have gone out of business. If such was the case, for Mr. Ka and his father, they could have acquired all this machinery for less than half of the FCFA 10-12 million estimate, though at this point, it is only speculation.



### Woodworking case study number 5: Mbaye Niassé, Express Meuble

Mbaye Niassé is the owner of a furniture making firm for the last eight years in the Grand Dakar section of the city. He will also do the finishing work for furniture, such as couches and arm chairs that need cushions and fabric covering (this is generally the work of what is called a *tapissier*). His firm numbers ten people with two salaried workers and eight apprentices. Mbaye learned his trade as an apprentice for seven years in his father's firm. Mbaye started his firm with a partner who was substantially more experienced and well equipped than he (his partner had a table saw). After a year and a half, the partner left to return to the original firm he had started - he was overseeing the operation of the two firms at that point - and took all the equipment he had put into this joint venture with him. Though this was a major setback for Mbaye, he does not think he would have gotten his start without the initial help of his former partner.

The firm produces furniture exclusively on a made-to-order basis. The most common pieces are arm chairs, armoires and book case/wall units (called *bibliothèques*). Prospective clients will often see furniture that is placed outside on the sidewalk - either drying because of recently applied varnish or simply waiting to be picked up by the clients who initially order it - and tell Mbaye that they would like something very much along the same lines. Also possible is the situation where Mbaye will sit down with the client and design out of his head the model or style of the piece that most pleases the client usually when the latter is unsure of what he/she wants. They will often extend an advance to Mbaye, customarily worth half though sometimes only a quarter of the agreed upon estimate so that he can finance the purchase of the necessary inputs, primarily the wood, special varnishes and/or lacquers and any foam cushioning and fabric that may be needed.

The monthly operating costs of the firm come to around FCFA 170,000, with the rent costing FCFA 50,000, electricity payments of approximately FCFA 10,000, salary payments of between FCFA 30-50,000, FCFA 60,000/month in day time meals for the personnel and roughly FCFA 10,000/month in payments to his apprentices. Mbaye makes note of all the revenues and expenses from doing business and at the end of the year does a thorough balancing of his accounts. He maintains that there is simply not enough work to do it every month. Mbaye confidently asserts a figure of FCFA 8 million in annual sales volume for the year 1995, which he says constitutes a 20% improvement on the previous year. Despite the generally poor business environment says Mbaye, he is trying to save up enough money to make additional capital investments in more advanced equipment.<sup>5</sup> The lack of equipment has several important consequences for the firm,

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<sup>5</sup> It is worthwhile to note that if the firm's monthly expenditures as presented here are added up for the entire year, they come out to just over FCFA 2 million. With an annual sales volume of FCFA 8 million, it would be interesting to know what the average profit margin would be on each of the orders he completed for the year. Unfortunately, such pointed questioning would have extended the interview to intolerable lengths and would most likely have damaged the rapport between the interviewer and the interviewee. However, if one assumes that the firm is at least covering its costs on each order filled, there exists substantial room for handsome profits and hence fantastic savings opportunities if one looks at the firm's fixed operating costs on one hand and its actual sales volume on the other. One therefore has to wonder *i*).

according to Mbaye. First, clients manifest a certain lack of confidence in his abilities to do the work and will often go to other firms that have all the necessary equipment. Second, it makes the production time far less efficient. Finally, it makes it more difficult to win large construction jobs. Since the contractor is paid by the day, the first two reasons are again the most valid in explaining why small under-capitalized and under-equipped firms generally are not those carrying out the larger far more lucrative woodworking jobs related to a construction project.

Long term financing is the greatest need of Mbaye's firm. If he were to secure a large loan he would invest the money needed to purchase a large multi-functional table or belt saw and would probably move all the manufacturing operations to a larger workshop in the industrial zone of the city. That way, he would be closer to the large wood suppliers and would be able to make bulk purchases of the necessary woods with which he would then make a small inventory of furniture. He would hold onto his current workshop specifically for the purpose of creating a show room for that inventory. Essential to this strategy however is the equipment. Mbaye does not share the pessimistic outlook of other entrepreneurs on the growth prospects of the local market and he is convinced, like Ousmane (see case study number 1) that with the right tools he can go anywhere.

#### Woodworking case study number 6: Boubbacar Thiam

Running what is certainly the most recently established firm, Boubbacar has been in business for approximately a month. His workshop is located on the periphery of Médina. He runs the firm with five apprentices. Boubbacar was an apprentice himself from 1970-82 in another woodworking firm. He left out of necessity since his master was unable to pay any money with which he could make any kind of life for himself. This pattern repeats itself in all sorts of small firms throughout Dakar, according to Boubbacar. For the last eight years he has been working for a furniture-making firm (comprised of both woodworkers and tapissiers) located just a few blocks away. While there, Boubbacar was able to save enough money with which to rent his current workshop which costs him FCFA 25,000/month. His only other major monthly expense is the mid-day meals he provides for his apprentices, which costs FCFA 25,000/month. All water and electricity, insists Boubbacar, are included in the price of the rent.

Boubbacar goes very rarely to the industrial zone to purchase his wood saying the transport costs and the time spent hardly make it worthwhile. He will purchase his wood at any of a number of dépôts de bois in Médina and the neighboring Guelle Tappée area. He does not go to any one single supplier of wood. For a cubic meter of imported red wood, Boubbacar will pay between FCFA 390-410,000. The going price prior to the devaluation was around FCFA 260-270,000. For a cubic meter of imported fraccé, he now pays around FCFA 330,000 while before the devaluation the price was roughly FCFA 170,000/cubic meter. Boubbacar complains of having to waste a great deal of his

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what is in fact the average profit margin on most of the orders he fills; *ii*). is he really covering his costs with each order; *iii*). what portion of end-of-year profits are leaving the firm for family and other non-commercial ends and finally *iv*). what is the likelihood that his cost accounting is simply way off.

time looking for the lowest price among different wood merchants in the neighborhood because of very substantial price differences between the sellers. He believes there is a role for the government to play in regulating some of the prices so that there are not such major discrepancies in the price for imported wood on the retail market.

The firm is having increasing problems with its clientele. Boubbacar is in a difficult position of wanting and needing to be trustworthy of his clients by extending credit to them when they return to pick up whatever it was that they ordered and do not have enough money to pay the remaining balance due on the work, but often clients never return with the money and he ends up having to pursue them for extended periods of time so he can get paid for his work. Boubbacar knows it is too early to say how the firm is doing or will do in the near future. He doesn't think that much about going out and seeking financing opportunities. He is more concerned trying to attract clients and keep his apprentices busy.

#### Woodworking case study number 7: Mamadou Sidibé: Ameublement Khadim Rassoul

In existence since 1979 and situated on Martin Luther King Boulevard in the Corniche section of Dakar, Ameublement Khadim Rassoul is the furniture-making firm where Boubbacar (see case study number 6) spent eight years working. The firm, run by Mamadou Sidibé, employs three salaried workers and nine apprentices. There are actually two distinct firms that comprise Ameublement Khadim Rassoul; the first is the woodworking shop managed by Mamadou's younger brother and the second is the finishing side (tapisserie) managed by Mamadou himself, of what is an integrated furniture-making firm.

The principal inputs used by the firm include the imported fabric used to provide the finishing for primarily sofas and arm chairs and the sponge foam used to make the cushioning for such pieces. The fabric, generally imported from Germany, France and Morocco, can be purchased for between FCFA 2,700-3,000 but can go as high as FCFA 15,000 the meter. The sponge cushioning, made in the first factory in Senegal, initially rose in price after the devaluation, but is now beginning to stabilize at lower levels. Prior to the devaluation, the cushioning could be purchased for FCFA 1,100/centimeter, immediately after the devaluation it could be purchased for FCFA 1,800/centimeter and today it can be had for FCFA 1,300/centimeter.

The firm's monthly costs runs FCFA 25,000 in rent for the furniture finishing workshop and FCFA 30,000 for the woodworking shop, FCFA 5,000/month in electricity payments directly to the owner of the property (there is no meter in the workshop), FCFA 40,000 in salary payments, FCFA 15,000/month in taxes to the government (the VAT, the professional tax and municipal taxes).

The trade of a tapisserie is the finishing work for furniture that needs more than simply a coat of varnish, but also needs cushioned seats and arms covered with special fabric. Most of the tools of the trade are manual and involve precise cutting, fitting, nailing and

stapling. The sewing machine is a need for these artisans, but there is not such a quantity of sewing work that an electric machine is indispensable. Though the firm has made no major investments in the last two years, its business has picked up considerably since the devaluation, particularly in the last year or so. "The devaluation is very good for us," says Mamadou, "we are *for* the devaluation." Perhaps due to the firm's prime location along one of the major arteries in and out of downtown Dakar,<sup>6</sup> Mamadou's firm has experienced invigorated client demand for furniture. A new type of client is buying Mamadou's finished goods. Clients who used to travel to Europe to buy furniture for FCFA 4-5 million per piece are now coming to him for their furniture needs. His register of new orders for the past month shows five new orders for a total of over FCFA 1.4 million.

The firm is not however without its problems. Mamadou has worked as a sub-contractor for AGETIP (a quasi-public agency), and complains bitterly about how the latter has managed public sector contracts leading to a situation of under-payment for the work done for the client. In its role as intermediary between the client, in this case a large private sector construction company building a new office building somewhere in the downtown part of the city, AGETIP handles all matters of paying those small subcontracted to fulfill small parts of the larger job and has complete discretion to pay them whatever it wishes even if the client has budgeted more for the job than what the final payment to the small firms turns out to be.

Mamadou is also president of the Artisans Association of the Corniche which has been in existence for the last three years and was founded with the help of U.S.A.I.D., which plans to disburse FCFA 400 million (approximately \$800,000) in loans and grants to the National Association of Senegalese Artisans. The money has yet to be disbursed because the U.S.A.I.D. mission in Dakar has yet to receive concrete project proposals from the different associations comprising the national umbrella organization. Mamadou is trying, in his official capacity, to bring together the various artisans under his jurisdiction but cites major collective action problems related to mobilization and getting artisans to first of all join the association (which involves monthly dues of FCFA 1,000), then getting them to even show up a meetings is immensely problematic and finally defining the interests of all the artisans in their different branches of activity. One of his principal objectives as president of this association would be to attempt a consolidation of the number of small firms working in the same sector. Recognizing that this is a difficult long term objective, Mamadou believes it would nonetheless be immensely constructive.

#### Woodworking case study number 8: Amadou Moctar Seye

Amadou Seye, thirty seven years old, has been running his woodworking business in HLM since 1980. Though he initially started by manufacturing furniture, he has gradually moved to the almost exclusive manufacture of windows and doors for clients

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<sup>6</sup> In many ways, Ameublement Khadim Rassoul is a landmark of sorts. On numerous occasions directions were given to me and to others by saying, "do you know where, along the Route de la Corniche, where those menuisiers are all the time working on their furniture and have it exposed on the sidewalk, well..."

building new homes or for large scale construction projects. His personnel also does a great deal of cutting and shaping of wood for other woodworkers who come to use his numerous electric machines such as table saws, belt saws, planers, joiners and routers. The firm numbers fifteen of which five are salaried workers and the remainder are apprentices. Mr. Seye learned the woodworking trade while working in his father's shop both as an apprentice and as a paid worker. He started his current business with money that he had saved but with primarily a FCFA 500,000 contribution from his father. His father also gave him one of the electric belt saws that is currently in his workshop. The actual workshop is a fenced in area of about 50-60 square meters. There is a corrugated tin roof that covers the five different electric machines that the firm now has. The rest is open.

Much of the machinery that the firm owns was equipment auctioned off by the gendarmes for a bankrupt firm that had a workshop in the industrial zone of the city. Mr. Seye had to prove he had the intention of using the machinery for work and not to resell it. He therefore ended up acquiring about FCFA 10 million worth of equipment for FCFA 2 million. This machinery was all acquired in 1987. Basically, this has enabled Mr. Seye to shift the basic production orientation of his business away from input intensive furniture-making and toward woodworking for construction sites (*travail de chantier*), generally a more lucrative market prospect. Personal contacts with other masonry entrepreneurs has allowed Mr. Seye to get a foothold in the woodworking market for construction. Most of the firm's work in this market is for private clients who are building a house and need a menuisier to produce the doors, windows and any other items needed in the house, sometimes even furniture. He also bids on contracts, usually put out by a quasi-public agency like AGETIP, for similar types of work but on a larger scale and for the construction of larger public or private facilities.

One of the principal problems confronting Mr. Seye's firm in his work with the construction related projects is that he often has to deal with intermediary agencies who have been contracted to find small firms to carry out a specific part of the work related to the construction of a given facility. The problem lies with the fact that there is no transparency whatsoever in the ways that such intermediary agencies deal with either their clients on one hand or the small firms, like Mr. Seye's (or Mr. Mamamdou Sidibé's firm, see case study number 7), who are the subcontractor's on the other. What this lack of transparency generally means is that the intermediary agency - operating with a portion of the client's budget that has generally been allocated to finance the procurement of say, 50 doors and 100 windows for 3 new schools - can proceed to find a small firm to fulfill the required job, but is free to drive the bidding down to the lowest possible level driving most of the firms out of contention in the process and then choosing the lowest bid. Depending on the person doing the work for the intermediary agency, the difference between what the client was willing to spend and what will actually be paid to the

subcontractor often disappears.<sup>7</sup> The net result for the firm acting as the subcontractor is that the payment is often scarcely above the firm's costs.

#### Woodworking case study number 9: Ousmane Ndao

For the last nineteen years, Ousmane Ndao has been running his woodworking business in Médina. He runs his workshop with three salaried workers and three apprentices. After working for seven years as an apprentice, Ousmane left Senegal for Bamako, Mali in 1968 where he started his own workshop and stayed for six years until falling ill at which time he returned to Dakar. Soon after that Ousmane started his current business.

The firm produces furniture on a client by client basis and is well equipped to undertake any sort of job. The firm has one multi-functional used table saw purchased in 1994 for FCFA 2 million when Ousmane traveled to Italy to visit his brothers. He imported the machine paying approximately FCFA 550,000 in transport costs and value-added taxes. He thus saved between 50-60% of the cost of such a machine on the local retail market. Ousmane wanted to start importing these machines to resell in the local market but has since given up on the idea because the menuisiers simply cannot afford to make such capital investments since the devaluation.

Ousmane is concerned about the input costs of the firm, going to the industrial zone to buy a cubic meter of hardwood, however once again, the time and cost of such a venture often makes it not worth his while. Today, the cubic meter of imported fraccé will cost upwards around FCFA 250,000, whereas prior to the devaluation it could be purchased for between FCFA 100-110,000; imported red wood costs roughly FCFA 325,000/cubic meter and could be bought for FCFA 150,000 before and the most expensive of the imported hardwoods is dibetou which today costs approximately FCFA 380,000 the cubic rising from around FCFA 215-220,000 since the devaluation. Most all of the minor hardware items have traditionally been imported from Italy and have, in some instances, more than doubled in price. There are now however many Chinese made items that can be purchased for about one third less than the Italian ones. The monthly operating costs of the firm are never stable, depending on the volume of work currently available. Ousmane pays FCFA 25,000 in rent for his workshop that is about 40 square meters large, FCFA 12-15,000 in electricity, anywhere between FCFA 5-60,000 in salary payments to his three workers and FCFA 6,000/month in professional taxes. Ousmane's son handles all the record keeping for the firm and although Ousmane himself never touches any of the money the business makes, his sons makes monthly deposits at the CBAO (Compagnie Bancaire de l'Afrique de l'Ouest). He thus does not have an idea about the profitability of the firm but suspects they are doing well.

Ousmane does a fair amount of exporting with clients in neighboring countries such as Mali, Mauritania and Guinea.<sup>8</sup> Though Ousmane has a large and loyal client base, he has

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<sup>7</sup> This type of scenario was described one too many times by both woodworking entrepreneurs as well as people interviewed in the NGO sector that were familiar with how many of these contracts are managed to not believe its validity or at least its partial validity.

grown frustrated with the clients that come to his shop. Clients no longer recognize the quality and value of work. All they are interested in is price, says Ousmane, “they can’t even tell the difference between ply wood and quality hardwoods.” This he says, is forcing other firms to focus on volume rather than quality. More and more clients then become gradually convinced that they can walk into any woodworking shop citing some of the lowest prices they hear through friends around town. Ousmane, who has worked for approximately thirty years in the woodworking trade, will not accept orders at any price and will refuse clients on the basis of “the cheapest price for your work” attitude. He resists any further deterioration in the quality of the sector’s output.

In his position as president of the Médina and Rebuess chapter of the Woodworkers and Furniture-makers Association of Senegal (of which he is the treasurer at the national level), Ousmane is trying to defend the interests of the artisans comprising the furniture-making sector. Worried principally about rising input prices since the devaluation, Ousmane has first attempted to gauge, with the help of forty eight other entrepreneur/members of the local association, the type and level of assistance that would be most useful to them. Over a period of one month, Ousmane and the other heads of the local association managed to get a total of forty eight firms to save all of their receipts and bills for wood purchases. These firms spent a total of FCFA 18 million in the course of a month. The association is hoping to be able to find an interested partner that would help them create their own purchasing cooperative for raw materials (they would eventually like to import wood themselves) and help them establish a center where they can expose their finished goods to the public. Ousmane has had a number of meetings with AGETIP officials in charge of the PAME project hoping to persuade them to offer some of their assistance, however he has met with no favorable response. The AGETIP project will only fund individual entrepreneurs, forming themselves in groups of three, where each if funded in a staged manner, ten months from the other. Ousmane is busy conceiving of ways to help not only himself but other artisans in the sector. He has identified a number of the key problems of the sector and has mobilized enough people to make his initiative a worthwhile target for micro-finance activities. For the moment however, he is still waiting.

### Woodworking case study number 10: La Coopérative des Menuisiers de Grand Yoff<sup>9</sup>

#### *History of the cooperative*

The story of the Grand Yoff Woodworkers Cooperative is one that is unrivaled among Dakar’s many microenterprise collective ventures. The artisans of the cooperative and

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<sup>8</sup> He recently sent an entire dining room set to Bamako, Mali by train. All transport and customs duties are picked up at the other end by his client. A few months prior he sent an armoire and a number of book cases by boat to Conakry in Guinea. The same situation of the client picking up all transport and customs duties applied.

<sup>9</sup> This case study will focus specifically on the history, the plan of the cooperative, its current stage of actualization, the players involved and the importance of this venture. It will focus much less on the entrepreneurs and the firms that comprise the cooperative and but more on the collective project that these artisans are trying to advance.

some other key actors who have helped them along the way have shown exceptional determination and vision. Begun in late 1984, the cooperative from its earliest stages has placed land ownership as one of the central long term objectives. Grand Yoff is a small city growing up on the edge of the urban agglomeration that is Dakar. Much of Grand Yoff was growing with the urban sprawl of the mid-1980s and many houses were being constructed in a spontaneous manner with little thought to formally acquiring title deeds and respecting building codes (e.g. the types of materials used to build structures). Alongside this unregulated urbanism, there was enormous speculation in the land market and specifically the rental market.<sup>10</sup> The latter half of the 1980s, particularly from 1988-1990, saw numerous land expulsions and the wholesale destruction of different neighborhoods within Grand Yoff, the most famous of which was the destruction of the Cité Millionaire, a neighborhood of some 3,500 people at the time with actually many well established homes that were in full compliance with many of the city's building codes for construction materials, water and sewerage, etc. Many small businessmen and women, including a substantial number of the woodworkers in the cooperative who have had to move between three and five times over the last eight to ten years often losing equipment and many of the investments made in their workshops not to mention the breaking up of important social networks that are often the key to an artisan's client base. There have been no such expulsions since 1990 in Grand Yoff and the stability of land tenure appears to be stabilizing. Speculation in the rental market however has returned to being a very serious problem as major discrepancies persist in terms of rents, which are determined in no logical or systematic manner that is commensurate with either location, size or available amenities.

Since all of the members of the cooperative rent their workshops, some at speculative prices, the cooperative made it a priority to try to acquire a piece of land that could accommodate all of the working needs of its members. It finally did so in 1991 when it became the holder of a deed for a large piece of land (approximately 140 square meters) on the edge of Grand Yoff. The cooperative, has purchased the land for FCFA 4.5 million. Most of the money used to finance the land has been acquired both through initial as well as monthly membership dues and through the ongoing activities of the Caisse d'Épargne et de Crédit des Artisans de Grand Yoff (a savings and loan institution which is a structure of the cooperative but is open to all artisans working in Grand Yoff) which has been in operation since 1985. It has since drawn up architectural plans for the construction of the actual facility. These plans are on hold for the moment for lack of adequate financial resources. There are today roughly 25 members of the cooperative each currently with his own workshop. Although fifteen separate work shops are envisaged under the current plan, everyone will be working and producing for their own commercial ends.

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<sup>10</sup> Much of the rents accrued to Lébou elders and local religious leaders (marabouts). The Lébou are an ethnic group who are the traditional land owners of the entire peninsula, le Cap-Vert, that Dakar is situated on. These Lébou are not normally actual holders of title deeds for specific parcels of land, but are the undisputed and traditionally recognized owners of the land and people will pay rents to them directly are often to someone else acting in stead for a Lébou owner.



*The intended plan of the cooperative and its current stage of actualization*

The intended benefits of the cooperative structure are meant to meet many of the firm specific needs of the members/entrepreneurs of the cooperative, but they are also geared to responding to some of the major problems affecting the health of the sector as far as Grand Yoff is concerned.

First, the cooperative is geared to providing security with respect to the land question. For many members, not having to pay rent will dramatically increase the financial stability of their businesses and will potentially increase the propensity for further investment. Each member of the cooperative will be obliged to pay FCFA 5,000/month to contribute to the cooperative's operating expenses, FCFA 1,000/month in dues to the cooperative and FCFA 10,000/year for what is called the "social contribution" (*part social*). There will be no monthly rent for use of the cooperative's work space. These fees can be increased, but not without the majority consent of a general assembly meeting of all the cooperative members.

Second, the members want to bring in outside experts in the woodworking field to provide technical assistance training in the trade. Recognizing some of their own limitations, the members are intent on learning new production techniques; the reading of architectural drafts and other sorts of building plans; financial management skills and even reading, writing and arithmetic. One 13 square meter classroom has been allocated in the site plan toward these ends. The members of the cooperative have all expressed concern about the decline in the quality of production in the Grand Yoff woodworking sector and believe a firm commitment to further developing their own skills will be one way to reverse this trend.

Third, approximately 75% of the members do not have adequate equipment or access to certain machinery. The cooperative has envisaged a centralized workshop for collective machine use. It will be approximately a 35 square meter covered space in the middle of all the other individual workshops. The cooperative will purchase these machines gradually over the course of the first couple of years of its actual operation. There will be a fee of FCFA 40/minute for any electrical machine usage. All money will go to the treasury of the cooperative.

Fourth, in order to meet the marketing needs for members, the cooperative has planned the construction of two show rooms. Members can display their furniture in either of the two show rooms for a yet to be determined fee and duration. All proceeds will of course be channeled to the treasury of the cooperative.

Fifth, the cooperative members are intensely concerned with the situation and prospects for their apprentices. They are fully aware that both custom and the current post devaluation business environment has made it a practical impossibility for most entrepreneurs to provide adequate compensation to their apprentices. Everyone knows the consequences, which are that apprentices are often forced to leave their maître before

their training is complete to set up their own business simply to be able to sustain themselves. Their only way to compete has been a low cost high volume production strategy in an attempt to build up a client base. This produces a gradual decline in the quality of output across the sector as more and more firms are drawn into having to compete on the basis of price. What the members of the cooperative would like to do is to provide the necessary environment in which apprentices could maximize their learning opportunities even if they decide to leave before completing their full training. Moreover, they want to build annexes to the yet to be constructed facility offering possibilities for immediate membership into the cooperative to those apprentices having completed their apprenticeship experiences. It is believed that such measures would go a long way in raising the level of quality produced in the Grand Yoff woodworking sector, not to mention helping sustain its good reputation.

For the moment however, most if not all of these above points are still objectives of the cooperative. The cooperative itself has not been built and the members are looking for ways along with a local NGO, who has been a supporter and organizer of many of the efforts of the Grand Yoff woodworkers even years before these later formed themselves into a cooperative, to find a viable partner interested in helping to finance the construction of the cooperative. Once constructed, the members believe that will be able to pay off all loans incurred in the construction of the facility and be able to achieve financial sustainability. The collective machine shop (open to the outside as well), the show rooms, the lending operations of the savings and loan and a dépôt de bois (also open to the outside) are all commercial and quasi-commercial activities that will be the principal means by which the members will try to achieve their goals of financial sustainability. There will be pressure from both within and outside the cooperative to price some of their services at a social, rather than at a market clearing level. It will be crucial for financial sustainability that such pressures are resisted.

### *The players involved*

Though there are many woodworkers in Grand Yoff that are not convinced of the project that is the cooperative. Certainly, many such efforts have proved short-lived in the past. There are however a key group of people that have, from the beginning, been able to identify pressing problems, assert a collective strategy and maintain enough forward momentum of the strategy to keep people mobilized and determined.

Mr. Mor Wouly N'diaye, president of the cooperative, is a very successful woodworker who manages two firms, one in Grand Yoff and another in the neighboring community of Les Parcelles Assainies. Though Mr. N'diaye's businesses are thriving compared to most other firms and could easily do very well for himself without the cooperative, he wants to be involved in shaping the future direction of the woodworking trade and how it is practiced in his community. Though he does not need even have of them, Mr. N'diaye takes on close to twenty five apprentices and makes it a point to pay every single one of them close to FCFA 2,500/month each. Creating a training center within the cooperative, for members and apprentices alike, is the best way he knows to begin to secure a more

stable woodworking sector that is geared to the maintenance of quality in production and seeks to learn from itself. He brings to the cooperative not only years of experience, but important contacts within the construction industry as well as the banking and NGO communities.

Mr. Moussa Mbaye, general secretary of the cooperative, is an incredibly articulate entrepreneur who possesses exceptional organizational skills and has a particular ability to conceive of solutions to problems. His business was subjected to the land expulsions, on three different occasions in the last ten years, from different neighborhoods within Grand Yoff. Mr. Mbaye was one of the principal architects of the cooperative's saving and loan that was set up to help all struggling artisans in the community. He himself is among those struggling as his client base was totally broken up by the forced moves he has been subject to, however, he brings to the cooperative a remarkable ability to convince other artisans of the sense of purpose that surrounds the cooperative venture. He has twice kept a mass exodus from the cooperative from happening despite widespread member apathy and frustration up until the time when the land was purchased and has been instrumental in actually increasing membership in the last two years.

Mr. Moussa N'diaye is the eldest member of the cooperative and is affectionately called the *doyen* (head master) of the cooperative. Mr. N'diaye has been the maître of over 50% of all the woodworkers currently running their own businesses in Grand Yoff, including Mor N'diaye (the president) and Moussa Mbaye (the general secretary). He has been in business for a little over thirty years and is a powerful and well respected entrepreneur and community figure. He, like Mor, takes on twice as many apprentices as he either needs or wants. However, he does so because parents come to him with their sons hoping he will be able to teach them something that will be useful and meaningful to them later in life. His primary concern with the respect to the cooperative is not so much related to his own business, which is quite well established, but rather to ensure that the woodworking trade will be a viable one for future generations. His focus therefore is on the skill development of young apprentices through the cooperative's training center. Though Moussa N'diaye does not have a specific function in the cooperative his presence provides moral authority to all that the cooperative is trying to accomplish, something which is a far from insignificant element of the cooperative's position within this very traditional muslim community.

There are also a number of very important members of a local branch of ENDA Tiers Monde, called ENDA GRAF (GRAF stands for the research, action and training group). This group has been present in Grand Yoff for well over twenty years and has a wealth of experience in community mobilization, income generation projects, technical assistance, socio-anthropological and applied economic research and is for the most part, widely respected by community members. ENDA GRAF has been helping the woodworkers organize themselves and provides a valuable forum for them to come together and discuss problems, objectives and strategies with some of their staff which lends important expertise and contacts within and outside the country. The group lacks the financial resources to help build the cooperative's actual facility, but is instrumental in helping the

members of the cooperative design and draft proposals to send to other organizations. Finally, ENDA GRAF provides an important amount of legitimacy, in the eyes of the public authorities, to the initiatives of the Grand Yoff woodworkers, many of whom could be (and have been) subjected to police harassment for non-compliance with tax responsibilities.

*What is the significance of this cooperative venture*

Though the cooperative has comparatively little to show for its roughly ten years of existence, the efforts of its members illustrate a few very important things.

First, contrary to much that has been written about microenterprises and their lack of a propensity to save for, invest in and think strategically about the future (and especially in periods of uncertainty like the Senegal of today), the firms that comprise the Grand Yoff Woodworkers Cooperative, and more particularly the entrepreneurs running those firms, have exhibited high levels of well directed determined group action.

Second, the members of the cooperative have a far from homogeneous set of interests. Some firms are motivated primarily by their lack of access to important pieces of machinery, others by the speculative land rents they must pay to operate out of their current workshops, some by the ability to be able to participate in enhanced marketing opportunities provided by the planned construction of two show rooms. Some are motivated by a combination of all of these things and others by none of them. One would think that trying to start a cooperative among such a heterogeneous set of individual interests would give rise to paralyzing collective action problems. Yet the cooperative has been able to not only accommodate extremely diverse interests but maintain extraordinary cohesiveness over many years when there were even less to show for their efforts than there are today. The cooperative now has FCFA 5 million in savings, 25 members and a major asset (the land) for which it is paying off gradually.

Third, the cooperative has gone beyond simply serving the firm specific needs of its members and has sought to address some of the more systemic problems of the sector as they are being played out in their community. The most important of these problems is the dual process of proliferation of new small woodworking firms run by recent former apprentices and the de-skilling happening across the sector as a result of many of these new and unqualified entrants. The cooperative is placing a premium on providing an adequate structure to properly train these apprentices in woodworking and hopes to be able to provide basic educational opportunities as well. The lack of access to credit is another major systemic problem that the cooperative is grappling with through its well functioning savings and loan operations. Though it has only reached a few hundred people with loans no larger than FCFA 100,000 it has nonetheless provided needed credit into a totally illiquid system.

Fourth, the members of the cooperative have an expressed commitment to learning, not only from each other, but from outsiders as well. The training center that they have

envisaged for the cooperative will be an important mechanism for the members to raise both their level of productivity and the chances that they will be able to achieve the sort of restructuring of the sector they are hoping for.

The cooperative is not yet any standing model of success and accomplishment and things could indeed prove to be far more difficult than what the members have so far encountered. At its most fundamental level however, the cooperative with all its plans, albeit far from being fully implemented, has identified commonly shared problems and is collectively investing in a strategy for its own future. Though it is not totally apparent and one has to indeed look for it, Dakar's manufacturing sector businesses could use a little bit more of what these woodworkers have.

## Section VI: Research Findings and Policy Implications

This section will synthesize the main findings that emerge from the case studies along the lines of the research questions initially posed in Section I. At the end of the discussion of each one of these questions, practical implications will be discussed that propose some concrete measures that may be taken by either government, the NGO community or even by external donors.

### 1.0 Employment growth and the size of the market

The issues that will be looked at here are how firms appear to be acquiring their labor inputs in a labor market that is characterized by very poor regulation which allows for labor to be extremely inexpensive. Also, the process of firm proliferation or horizontal growth in both sectors will be discussed with their implications for the viability of the local product markets.

The reality in the labor market for manufacturing microenterprises is that labor is extremely cheap. Particularly since the devaluation, firms having been making more widespread use of apprentices, particularly in the woodworking sector. This process of using more and more apprentices, who often go close to totally unpaid, to meet the labor requirements of the firm appears to be exacerbating a process of rapid proliferation in the number of new entrants (horizontal employment growth) into both the garment-making sector, where this has been occurring for quite some time, and in the woodworking sector where this process is just beginning to become an acute problem. Many garment-making firms are becoming very pessimistic about the growth prospects in the local market and cite a situation of market saturation as their most fundamental problem. They are therefore beginning to clamor for marketing opportunities abroad. More established firms in the woodworking sector are complaining of being dragged into price competition with younger start-up firms who, for their part, often have to produce below their marginal costs so as to win over clients. This process of horizontal employment growth appears to be reducing the growth prospects for firms dependent on the local markets.

The apprentices and often the salaried workers, whose salary is a function of the current business environment, are so under-compensated for their work that they have few choices for assuring their own livelihood than to go into business for themselves. This reality is illustrated by the fact that close to 100% of the entrepreneurs interviewed in both samples had acquired their professional training as apprentices in other microenterprises. This is to suggest that the market for skilled labor is indeed depressed if someone recently completing an apprenticeship cannot find adequate compensation for his labor as a salaried worker in Dakar's microenterprise manufacturing sector. One can also recall the cases of Martin Memdy, Doodoo Thior and Boubbacar Thiam (garment-making case study number 2 and woodworking case studies numbers 2 and 6 respectively), two of whom were the only two non-entrepreneurs interviewed, which

indicate how there exists no upward mobility within firms that allows apprentices to become workers and for workers to graduate to managers in a way that provides adequate compensation for work.

Generally speaking, it is the older more established firms that are most concerned with productivity and quality and are most intent on moving into more value-added production. They will therefore invest in acquiring more skilled labor, while younger start-up firms, facing severe capital constraints, will take on a disproportionate share of apprentices to meet their labor requirements. There is however no systematic pattern with respect to the sourcing of labor. For example, the cases of Mamadou Sarr, Mamadou Sow, Pap Ka, Mamadou Sidibé (garment-making case studies numbers 4 and 8 and woodworking case studies numbers 4 and 7) all show well established firms that are all taking on substantially more apprentices than salaried labor. Though it is impossible to say what their exact intentions are in so doing, one can only say that they are causing a disproportionate share of those unpaid or under paid apprentices who cannot afford not to go and set up their own business - thereby providing further horizontal growth in both sectors and further saturation of local markets. It appears to be true however that most of the firms that acquire their labor inputs in such a way are indeed the younger start-up firms which are facing often far less certain business prospects and more severe shortages of operating and investment capital. Hence, for the same reasons that some firms elect to pay their taxes and others choose to avoid such responsibilities, firms are most likely making calculated decisions about their short-term costs and the long-term probability of being able to stay in business.

The process of horizontal growth of sectors in the Senegalese informal economy and the attendant problems of saturation in the local markets is a situation that is characteristic of an economy that has had prolonged stagnation in the modern sector. The practical implications of this reality point to a much needed regulatory role on the part of the Senegalese government. This is an intensely debated issue which has so often been characterized by rather polemic arguments over whether government regulation is increasing the number of firms moving into the informal sector and inhibiting private sector development. Though the case of Senegal reveals that there is little regulation to speak of as concerns manufacturing microenterprises, there do appear to be important areas where government can increase its regulatory position and bring about constructive change with respect to microenterprise development. For example,

- The government could provide increased regulation of new entrants into the manufacturing sector, particularly the firms that do not meet certain quality standards. This type of regulation however would be administratively difficult to implement and would probably be extremely controversial.
- The more necessary long term regulation however, would be to force a major consolidation in the number of firms in the different sub-sectors of manufacturing microenterprise activity. The impact of such a draconian measure could prove devastating in the near term as concerns urban poverty and could ignite serious social

unrest. It is difficult to conceive of gradual inducements however that could accomplish the same goal, but such speculation could prove very valuable to the prospects for private sector development in Senegal coming from microenterprises.

The contribution that can be made from the NGO sector here is perhaps fairly limited. Needed action that could have a positive impact however would be in the following areas:

- NGOs can actively encourage the development of different collective structures among firms by tailoring their assistance programs to groups of firms that have already come together and identified specific needs. Examples would include the purchasing cooperative initiatives of the Médina chapter of the Woodworkers and Furniture-makers Association of Senegal, the Grand Dakar Garment-makers Association and the Grand Yoff Woodworkers Cooperative. All of these associations have thought seriously about the need to bring about a consolidation in the number of firms and NGOs active in microenterprise development activities should make it a priority to assist in long term consultative planning efforts with these collective associations in order to bring about the required restructuring.
- Identifying and creating a database of the various community level and sectoral associations that are becoming more and more active would be a major step in the right direction in terms of knowing who is doing what and where. Such information is now totally dispersed and it keeps artisans and the NGOs seeking to help them often working at cross purposes.

## 2.0 Production strategies, constraints and growth opportunities

The case material presented in the preceding two sections show that the major economic and institutional factors that appear to be hindering firms from moving into more dynamic market opportunities are a lack of operating and investment capital, the total lack of formal mechanisms to support the marketing needs of entrepreneurs in both sectors and unmet needs for productivity-raising technology. The practical implications will be considered at the end of the discussion presented on the aforementioned factors.

First, the vast majority of firms in both sectors are experiencing significant operating capital constraints. The lack of operating capital appears to be an especially acute problem for firms in the garment-making sector. Many firms in this sector are stuck in a high cost and low volume production scenario that keeps them working on a made-to-order basis with clients. Key inputs are purchased on a more expensive piecemeal basis and equipment often does not operate at close to full capacity. There were only two garment-making firms interviewed (see garment-making case studies numbers 6 and 8) that had enough operating capital to make major inroads into the local commercial market by obtaining economies of scale in ready-to-wear production of garments and moving them out through well developed commercial networks. In one instance, the entrepreneur was able to take advantage of close personal contacts with his suppliers of fabric in the local retail market to make bulk purchases of this key input, keep his labor costs down by



exclusively using apprentices to manufacture cheaper traditional style garments of a less sophisticated nature and finally, develop over time important contacts with local vendors in other regions of the country. The savings and profits from this activity allowed him to invest in additional machinery which further increased the firm's productivity.

Second, the lack of capital is also preventing firms in both sectors from following through on important investments. Firms in the woodworking sector are most hard pressed for investment capital. This is due primarily to the high fixed costs of acquiring more sophisticated technology but also for pursuing a more integrated strategy of furniture production. Such a strategy would involve making major purchases of inputs that would allow firms to produce inventories of furniture and to undertake needed expansion of the workshop so as to be able to display that inventory for the public. Since not a single firm interviewed had been able to pursue such a strategy precisely because of the capital intensity involved, one could conceive of substantial gains available to those firms that could produce for a currently non-existent furniture retail market. Care however would have to be taken in conceiving of the most appropriate pricing strategies.

Even with an adequate supply of operating and investment capital flowing to the majority of firms in both sectors, such will not be a panacea for some of the other constraints on microenterprise growth. The viability of the growth paths suggested by a slight number of firms mentioned here has to be questioned on the basis of some of the very same market saturation issues discussed earlier, as well as the current absence of marketing mechanisms that would allow firms to pursue more aggressive niche marketing strategies.

Third, there are no formal functioning marketing mechanisms available to firms in either sector to increase the exposure of their finished goods in the local market. All marketing depends exclusively on the individual firm which attracts its clients through personal and professional contacts; certain firm specific advantages (e.g. location, sight and sound of certain machinery) or simply by chance. Firms in both sectors are rarely ever able to display their products through local trade shows or marketing expositions. Sectoral associations are not well enough funded to organize such events and few inter-firm linkages or informational spill-overs occur as a result.

As concerns the market for exports, formal marketing initiatives are completely non-existent. A handful of firms in both sectors do export, but such activity occurs on a purely informal basis through no help of any marketing mechanism - government, NGO or otherwise. Those garment-making firms that do export (see garment-making case study numbers 4 and 7), do so either through personal travel abroad by someone in or related to the firm, or unknowingly through a client who purchases goods which he/she can then sell abroad. Many other garment-making firms seeking to move beyond production for the local market are constrained yet again by the absence of credit to be able to invest in the expensive and time consuming administrative procedures of acquiring visas for international travel. Woodworking firms, usually the larger ones, will sometimes export but normally to clients in neighboring countries rather than to OECD countries (see woodworking case study number 9). Logistical and customs issues often

become problematic for woodworking firms seeking to have finished goods shipped to other countries even though the client customarily picks up all such costs on the other end. The exports of woodworking firms are also generally a result of personal contacts with clients in other countries. In neither sector are such export opportunities stable or even widespread.

Fourth, very few firms in either sector have no need whatsoever as far as additional, more sophisticated or specialized technology. Garment-making firms face often serious constraints in respecting deadlines due to the low productivity of available equipment in manufacturing garments. Doing hems, buttons, embroidery and applying lace overlay patterns can all take twice to three times as long if done manually or without specialized equipment. Low productivity in turn, appears very closely linked to unmet needs in the workshop with respect to technology. Firms without adequate machinery have to outsource for the completion of specialized tasks. Client relations have often been severely damaged by the resulting low productivity affecting a firm when the entrepreneur must submit himself to the work schedule of other firms when outsourcing. Woodworking firms appear most handicapped by unmet needs for technology. Though difficult to measure, client perception (e.g. lack of confidence) seems to weigh particularly heavily on those firms that do not have certain pieces of machinery. Firms are kept from accessing particular markets, namely the construction related market since firms need to be able to operate at a very high level of output in order to fulfill often large work orders. Outsourcing in this regard can be costly and time consuming if one does not know the right people or if one is poorly located.

With respect to the provision of credit, the practical implications open to NGOs can be summarized as follows:

- More often than not, the credit needs of manufacturing sector microenterprises will be both continuous in nature and long term in its repayment scope. There are virtually no micro-finance institutions with this fundamental orientation driving their current activities. Many firms have turned down credit that is either too small in its amount or is too short term in its repayment conditions. Firms that have received credit have generally been financed on a one time basis and have had no ongoing relationship with any bank, NGO or other credit facility. Only one firm (see garment-making case study number 7) interviewed has had any continuous access to credit through the banking system, which is also a testimony to her credit worthiness.
- Credit operations of most NGOs stand to achieve a much greater impact if they were designed to support some of the existing collective initiatives of artisan and sectoral associations (e.g. the Grand Yoff Woodworkers Cooperative, the Médina chapter of the Woodworkers and Furniture-makers Association of Senegal , the Artisans Association of the Corniche). In many instances, such associations have already clearly articulated their needs, mapped out a plan for what they would do with financing and have attained a high level of mobilization among their membership. For the moment however, most NGO-led credit operations appear to be geared either

to ensuring complete cost recovery (which is indeed important) or simply moving out the money in a clearinghouse sort of way where the money is disbursed primarily as grants. In neither instance is there much attention given to finding ways to disburse credit to recipients that might link these latter up with more dynamic markets or processes. AGETIP's PAME project makes credit recipients first get together and form mini-associations, groups of three entrepreneurs, but this appears to be more of a mechanism to induce intra-group pressure for loan repayment rather than an attempt at trying to use credit as a mechanism to stimulate either inter-firm linkages or any other dynamic processes.

The development of the long term viability of local microenterprise credit operations will not achieve their needed impact if there is no meaningful involvement from the external donor community. Useful action might consider the following points:

- With respect to credit, it is essential to the long term viability of manufacturing sector microenterprise activity that Senegal builds local financially sustainable micro-finance institutions. The work of external donor agencies can be crucial in this regard. Though the transaction costs of donors funding microenterprise programs or projects on an individual basis would be far too high, external agencies can provide valuable long term capital and institutional assistance to local micro-finance institutions with a view to developing the financial sustainability of these latter.<sup>1</sup>
- The micro-finance work of donors must be increasingly geared to creating bridges between the international capital markets on one hand and the local providers of credit to small and microenterprises in Senegal and other capital starved developing countries.

Government actions with respect to credit could be geared solely to productivity raising investments in technology by:

- Allowing for special lines of credit to be made available through the local development banks (or even the NGOs) to groups of firms seeking to make additional investments in capital equipment.
- Making sure that certain important pieces of machinery that constitute capital goods for the entrepreneurs in certain sectors are not classified and taxed as consumer or luxury goods when they enter the country, thereby pricing them out of reach of many microenterprises seeking to acquire them in the local retail market. Such has been the

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<sup>1</sup> This is in fact the mission of a newly created multi-donor effort called the Consultative Group to Assist the Poorest (CGAP) housed within the World Bank. The group recognizes that the transaction costs of trying to meet even a portion of the large scale credit needs of simply the manufacturing sector microenterprises can be enormous. The case of Senegal nonetheless constitutes a huge market for which any local microenterprise finance institution could conceivably have an effective monopoly on the provision of credit and charge sufficiently high positive real interest rates, thereby making enough of a profit to achieve financial sustainability over the medium and long term.

case with the imported sewing machines, and particularly the specialized ones, that garment-makers have sought to acquire over the years.

As concerns marketing opportunities, the government must recognize that, in light of the devaluation of the currency, if it chooses not to regulate the number of new firms that enter into either sector thereby slowly reducing the revenue generating potential of the local market, it would be advisable to create some marketing mechanisms for entrepreneurs producing in the local markets. Some immediate required action would be in the following areas:

- The government can choose to finance the marketing activities of the national level sectoral associations that are currently unable to operate and who have undertaken marketing initiatives in the past. These associations, such as the National Association of Senegalese Garment Workers, would probably need major management restructuring since they have been in a moribund state for years.
- The government could choose to construct marketing complexes where artisans could convene, expose their finished goods to the public and meet other artisans in the same sector thereby providing opportunities for all sorts of contacts and alliances to be made.

Conceiving of marketing opportunities for the export market would indeed be breaking new ground for the government of Senegal. Some concrete actions could be taken to begin a process of opening marketing opportunities abroad for local entrepreneurs.

- The government (working through the Ministry of Tourism) could use its attractiveness as a major tourist site to organize international conferences/meetings between local sellers and international buyers and export agents, or to host international trade shows for certain sectors.
- Streamlining the process of acquiring visas for international travel could be another first step toward helping Senegalese entrepreneurs to begin making a name for themselves. This would facilitate their ability to attend international trade shows and market their own products,<sup>2</sup> which combined with some of the local measures geared toward facilitating contacts and information exchanges between firms, could have a far more profound effect than one might imagine.

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<sup>2</sup> Due to the ever increasing number of Senegalese tourists who overstay their welcome on visas granted primarily to OECD countries, the government has made a formal request since the devaluation to most of these countries to substantially tighten their visa requirements. It is no exaggeration to say that the government is indeed afraid of a large scale exodus of primarily young people leaving the country if such requirements were dramatically relaxed.

### 3.0 Coping strategies

The discussion here will focus on the importance of collective initiatives of groups of firms seeking to identify their most pressing problems associated with doing business in the urban economy of Dakar. It will also emphasize the reasons for which these groups of entrepreneurs are conceiving of strategies to resolve their problems. Savings, bookkeeping and public procurement will also be discussed as important factors which help firms cope with some of the more difficult realities of running a microenterprise.

Foremost among the coping strategies of firms has been the surprising level of collective action among firms to first identify, and then, attempting to grapple with some of their most pressing problems. This collective action has taken a few different forms ranging from simple raw materials purchasing initiatives to marketing strategies and finally, to formal cooperative structures. It is interesting to note that there appears to be a greater propensity for collective action among firms in the woodworking sector than in the garment-making sector, even though every firm in the latter was a member of the National Federation of Senegalese Garment Workers (FENAPH).

By far the most elaborate and ambitious of all the collectively oriented strategies has been the Grand Yoff Woodworkers Cooperative (see woodworking case study number 10). In five very important ways, the cooperative is seeking to grapple with some of the systemic problems its members have identified as most serious for the future of the trade in their community. First, is the problem of speculative land rents in the area and the past problem of forced removals by the authorities from certain plots of land; a problem affecting not just the woodworkers in the area. The cooperative is now owner of a large plot of land on which it intends to build the actual facility. Owning this land marks the crowning achievement of the cooperative to date and has provided needed momentum to all their other objectives. Second, is their already functioning savings and loan operations which have provided needed business credit to members and non-members alike. Third, is the cooperative's intention to build a collective machine shop once the facility has been constructed so that members will have access to needed machinery. Fourth, is the intention to build two display rooms to allow for members to increase their marketability within the community. Fifth, is the idea of creating a center for education, training and technical improvement that will be geared as much to the apprentices as it will be to the members themselves. The members recognize the forces driving newly trained apprentices to go and set up their own business and are therefore seeking to provide adequate training and money-making opportunities to keep them in the cooperative as long as possible. The members are even thinking about building annexes to the yet to be constructed facility so as to allow graduated apprentices the chance to remain in the cooperative.

Other such collectively oriented ventures worthy of mention include the raw materials purchasing and marketing initiatives of the Médina chapter of the Woodworkers and Furniture-makers Association of Senegal (see woodworking case study number 9) which has been engaged in negotiations with officials from AGETIP's PAME project to acquire

long term financing to set up their own wood importing and merchandising business as well as to construct their own marketing facilities. The Garment-makers Association of Grand Dakar (see garment-making case study number 9) has already achieved success in being able to provide local firms with small loans for the exclusive purchase of certain inputs which are purchased in bulk by the association, and for which the savings are passed on to the members. More long term loan financing however remains an objective for this association.

Whether the activities of these collective projects are to press for long term credit, cheaper and easier access to more expensive inputs, to provide a better training environment for apprentices or whatever; the significance of these efforts cannot be underestimated since they constitute important areas where entrepreneurs are collectively choosing to invest in their own future.

Among some of the firm specific ways entrepreneurs are grappling with the systemic problems across both sectors, savings is a very important practice that allows most all firms to get through periods of weak client demand and make gradual investments in technology. For instance, with the exception of two firms (see garment-making case study number 3 and woodworking case study number 4), all the other firms interviewed have made their investments in technology through own source revenue and the savings of the firm. Not one entrepreneur leases any equipment, even though a substantial number do outsource for it. In some instances the level of investment in capital equipment approaches FCFA 5-7 million and can go substantially higher. One woodworker had to tap into the savings of the firm immediately after the devaluation in order to complete a job for the construction of three dozen doors and windows that had been placed weeks before the devaluation. The down payment left by the client was largely insufficient to purchase the necessary inputs at new rapidly rising prices. The entrepreneur completed the job for the original estimate that had been agreed upon and took a loss on the job. However, the client was a mason who had numerous contacts in the construction market for private homes and he valued the entrepreneur's commitment, and has since provided the latter with many lucrative jobs.

The issue of accounting and bookkeeping may not allow firms to reconcile themselves with a depressed business environment associated with a drop-off in client demand and so on, but it can be of crucial importance in helping firms to manage their available resources more efficiently. What is more, many firms in both sectors simply do not distinguish between business revenue on one hand and non-commercial (e.g. family, social, religious) expenditures on the other. The mismanagement of cash inflows, often in the form of down payments for yet to be completed orders, often not only inhibits productivity through confused and insufficient purchasing of key inputs but can endanger the maintenance of good client relations (see in particular garment-making case study number 1). Clearly, the very low and sometimes non-existent level of education of many entrepreneurs presents a practical impossibility for some firms to do anykind of cost accounting, but there are ways around this education level variable (to be discussed below). Entrepreneurs that do not do any cost accounting out of self-imposed lack of

rigor however, is another story. Numerous entrepreneurs in both sectors have judged that the depressed business environment since the devaluation has reduced the necessity for keeping records of transactions. A number of these firms do not have, as a result, a firm idea of whether their activities are profitable.

Though public procurement programs are not firm specific factors that allow microenterprises to cope with some of the more systemic problems associated with doing business, these programs can play an important role in helping firms forge linkages with other firms; achieve of higher levels of productivity and can also reduce some of the damaging effects of downward turns in the local business cycle. Public procurement activities are almost exclusively geared to the woodworking sector. Unfortunately, they are often seriously mishandled and are in need of management reform. Generally, they are also the exclusive domain of a single quasi-public agency. A lack of transparency in payment procedures as well as late payment problems often keep these procurement activities from having any of the intended developmental effects on the subcontracting firms. Many of the smallest firms are unable to bid for contracts either because of information bottlenecks (regarding requests for bids) or because they simply do not qualify on account of the equipment they may lack. There is a pressing need for more transparency in payment and contracting procedures, more management oversight with respect to agency staff acting as intermediaries in the field and better follow through to ensure quality production from subcontracting firms.

The practical implications coming out of the case studies for both sectors shows that there is no one model or set of actions that will provide uniform positive benefits to manufacturing microenterprises in both sectors and which will reduce the level of uncertainty under which they all work. Targeted actions will have to be flexible in nature and long term in their scope, all the while seeking to learn from those firms and groups of firms that have, or are beginning to voice their needs. Some of the practical implications for NGOs would include:

- Giving technical and organizational assistance to some of these burgeoning associations would help provide a voice and some needed legitimacy to their efforts. NGOs could use their often extensive contacts in-country, as well as abroad, to help such artisan, community and sectoral associations achieve financing for some of their collective schemes. Such organizational assistance could also be used to create opportunities for small trade shows giving artisan associations the chance to meet each other, exchange ideas, forge contacts and mobilize their own resources.<sup>3</sup>
- Creating bookkeeping ledgers that make use of pictures and are prepared with instructions in local languages rather than in French. Since there are hardly any artisans that possess no knowledge whatsoever of basic adding and subtracting, an

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<sup>3</sup> ENDA Tiers Monde is particularly well placed to undertake such activities, but its efforts sometime lack a coordinated and targeted focus on say, microenterprises in particular. Their microenterprise support activities are often lumped into a multi-faceted approach that targets community health needs, education of women, some food aid all in one package and the net impact on microenterprises gets diluted.

accounting system could be designed that makes use of certain visual images that pertain to a certain type of transaction, expense or revenue.

Practical implications for the government might include the following:

- Public procurement programs both could be and need to be reformed with a much more strategic conception of what can actually be achieved if such programs are well managed with significant attention being paid to the question of the quality of goods which are being purchased by the government. Currently such programs are carried out by a single agency that generally seeks the lowest bids from small firms and does nothing to ensure that the firm is delivering the product under rigidly observed quality criteria. These programs need to be designed in a way that *i*). forces firms to produce products that meet certain quality standards that are resolutely enforced by public officials through continuous oversight of subcontracting firms *ii*). contains an explicit understanding that the procurement agency will reject the goods if they do not meet mutually agreed upon quality standards and *iii*). links the producing firm to other markets, firms or production processes perhaps through getting the firm to produce a new product (one that it has never manufactured before) or an element of a finished product that will be used as an input by another firm.<sup>4</sup>
- Taking some moderate regulatory steps with respect to the real estate market that set forth some clearly defined regulations that rents must be a function of such commonly held variables such as location, size and available amenities. The current situation is marked by gross discrepancies in rent paid between similar locations possessing similar characteristics. Similar action aimed at tightening the procedures for estimating electricity consumption could also be taken which would have a very beneficial impact on the variable cost structure of many firms.

This section has sought to draw together the principal findings emerging from the case studies. The principal questions addressed here have been the nature of employment growth and its consequences for the viability of local markets. The economic and institutional constraints keeping firms from capturing growth opportunities in the local markets and the types of production strategies that enable firms to capture such opportunities. How firms are contending with some of the systemic problems associated with doing business in Dakar's informal sector. The practical implications arising out of these case studies will require action from the government, the local NGO community and external donors. There is much empirical work that needs to be done - particularly with respect to understanding the history of firms, firm birth and closure rates and the cost structures and profitability of firms - to be able to validate much of the discussion made here about growth opportunities in the local market, the process of market saturation and so on. However, there were many constraints of time and resources that

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<sup>4</sup> For a good recent discussion of how well designed public procurement activities have had many positive developmental consequences for microenterprises in Northeast Brazil, see Tandler, Judith and Amorim, Monica, "Lessons on Demand: Small Firms and their Helpers," World Development, Vol. 24, No. 3, March 1996.



rendered such work a practical impossibility for the time being. What has been presented is more of an analytical picture of some of the most salient points coming out of thorough interviews, albeit limited in number, with microentrepreneurs and other people in the government as well as the academic, NGO and donor communities.

## Section VII: Conclusion

This study has organized case material from firm level interviews in Dakar's garment-making and woodworking sectors around three broad themes pertaining to employment issues, production and the coping strategies such firms use, to contend with the systemic forces impacting on their business, principally since the devaluation. A research question was put forth for each of these themes and was addressed in the context of practical implications for policy-related action on the part of the Senegalese government, local non-governmental organizations and external donor agencies.

The case studies seemed to point quite strongly to a phenomenon of saturation of the local product markets that is being exacerbated by the unchecked proliferation of micro firms in both sectors. Though this problem is only beginning to take on serious proportions in the woodworking sector - as an increasing number of firms are competing on the basis of volume and price rather than quality in an attempt to gain an ever shrinking share of the local market for furniture manufacturing - most garment-making firms compete ferociously in the local made-to-order apparel market and have seen their margin of profitability decreasing for some time. What appears to be at the core of this firm proliferation or horizontal employment growth is the availability of cheap labor, particularly in the form of apprentices. This readily available labor supply appears to be depressing the market for skilled labor which could theoretically contribute to more of a process of vertical growth of firms.

The local markets are not however devoid of any growth opportunities. The case studies do illustrate that a number of firms in both sectors have been able to grow substantially, make major investments in capital equipment and generally appear to be doing well, comparatively speaking. For garment-making firms, a production strategy geared to bulk purchases of cheaper inputs and the high volume manufacture and commercialization of ready-to-wear apparel appears to be one of the paths most sought after for many firms. However, capital, technological and marketing constraints combine to make it impossible for many firms to reorient production in this manner. The few firms that have made successful moves into this market have almost always benefited from at least one or more of these factors.

Firms in the woodworking sector can work in a few different local markets, all of which are circumscribed by access to technology in one way or another. The market for furniture may be the largest but is characterized by increasingly strong competition, is very input intensive and production is generally on a made-to-order basis. Most firms seek to move toward the production of inventories of finished goods, but unmet needs for investment capital to make the necessary investments in technology and marketing facilities keep firms from breaking into this seemingly untapped market. Some firms have moved completely away from furniture production and produce exclusively for the more lucrative construction market, but once again, the barriers to entry are the large

fixed costs of capital equipment that is required to produce at the necessary level of output.

The generally precarious business environment, particularly since the devaluation, seems to be driving more firms to collectively identify their most pressing problems and to begin to take steps to resolve them. A surprising number of firms are devoting a substantial share of their time to working with other firms to achieve mutually shared objectives. Virtually all of these initiatives are attempting to grapple in one way or another with the systemic problems associated with manufacturing and marketing in the local markets. An extraordinary level of awareness exists as to the damaging effects of rapid proliferation of micro firms in each sector. Some entrepreneurs are actually calling for the government to halt this proliferation, while others prefer to see if the rising level of interest in collective structures and associations will bring about a more consensus-based solution to the problem. Other more firm specific factors that help businesses cope with their problems include the remarkable propensity to save and invest despite often meager business prospects. A failure or inability to adopt some basic financial management practices are weighing on the productivity of certain firms not allowing them to better manage scarce resources. Finally, public procurement, though not a firm specific factor, does hold interesting potential for being able to raise firm productivity and increase linkages between firms in different sectors if needed management reforms of these programs could be implemented.

There are important limitations of this study that have gone heretofore unmentioned. First, is the obvious small sample size that does not permit this study to conclude that these are the most pressing issues facing firms in these two sectors. Moreover, the small sample size obviously reduces the generalizability of some of the claims made here for other manufacturing sector micro activities in and around Dakar. Second, constraints on time and resources did not permit the gathering of needed empirical information. More data is seriously needed on the variable cost structures of firms - particularly with respect to labor and the labor hours needed to produce certain goods and imported inputs - so as to empirically assess the margin of profitability of firms producing in the local markets and thereby deriving a firmer picture of the financial viability and growth prospects in these markets. Such information would be crucial in validating some of the claims made here about market saturation and the growth potential of certain production strategies. Finally, further research would need to be conducted on the implementability of some of the proposed actions for government, particularly with respect to its regulatory role.

The relevance of this study however lies with its attempt to look at some of the most salient forces that appear to be simultaneously hindering the growth of these sectors as well as presenting opportunities that may be capitalized upon if targeted action is taken. It has also hoped to demonstrate that despite a lack of access to many important resources including credit, marketing mechanisms, technology and further technical and managerial training; some of the firms in each of these sectors manifest significant dynamic growth potential as they save and invest, tap into foreign markets on their own and satisfy large and important portions of consumer demand. Many other firms, often younger, face the

same impotence of government supportive mechanisms but compensate themselves by street smarts, ingenuity and a will to survive.

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