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Preface

At the Third Tokyo International Conference on African Development (TICAD III), the Government of Japan announced Japan's initiative of "Poverty Reduction through Economic Growth" as one of three pillars for assistance to Africa. In African countries, where nearly eighty per cent of the people live in rural areas, it is needed to promote economic growth that should benefit rural people so as to reduce poverty in these countries. In order to stimulate economic growth in rural area, it is necessary to diversify poor people's livelihoods and to increase opportunities for generating income from non-agricultural sources. Promotion of micro and small enterprises (MSE) in rural areas is one of the important solutions to diversify people's livelihoods.

Against this backdrop, this project study was implemented to understand the current situation and problems of MSE in rural areas of Africa, and to analyze the policy and strategy for promoting MSE and various support provided for the development. Based upon the analysis, direction of Japan's future cooperation to MSE development in African rural areas is proposed. The study also put emphasis on MSE's access to financial services, in particular, microfinance, as one of the major constraints for sustainable economic growth in rural areas.

The final report of the study conducted by the International Development Center of Japan, and commissioned by Japan International Cooperation Agency (JICA), is expected to be used as a reference by JICA in its future development assistance. Accordingly, the contents of the report do not necessarily reflect the official views and opinions of JICA.

I would like to extend my deep appreciation to all the people and institutions that provided generous support and cooperation.

March 2007

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Abbreviation

ASCRAS	Accumulating Savings and Credit Associations
BAC	Business Advisory Center
BDS	Business Development Services
CUA	Credit Union Association
DANIDA	Danish International Development Agency
DBAs	District Business Associations
GTZ	The Deutsche Gesellschaft für Technische Zusammenarbeit
ICT	Information and Communication Technology
IFAD	International Fund for Agricultural Development
ILO	International Labors Organization
MDGs	Millennium Development Goals
MPSD	Ministry of Private Sector Development
MFIs	Micro Finance Institutions
MTEF	Medium Term Expenditure Framework
PEAP	The Poverty Eradication and Action Plan
PSDS	Private Sector Development Strategy
ROSCAS	Rotating Savings and Credit Associations
SACCOS	Saving and Credit Cooperatives
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
WB	World Bank

Currency exchange rates

Ghana	GHC1＝ ¥0.013
Kenya	KES1＝ ¥1.728
Zambia	ZMK1＝ ¥0.029
Senegal	XOF1＝ ¥0.241
Uganda	UGS1＝ ¥0.069
Madagascar	MGA1＝ ¥0.062

Source: http://www.jica.go.jp/announce/consul/pdf/HP07-03-07.pdf)

Summary

Current Status of Micro and Small Enterprises in Rural Africa

In Africa other than the Republic of South Africa, where indigenous manufacturing enterprises are rarely large enough to be called "small and medium enterprises (referred to as "SME"), most enterprises are MSEs, which are based in villages and engaged in labor-intensive activities. Especially in rural areas, MSEs are the dominant majority, mostly run by self-employed owners, and, even in an aggregation of products of many of them, generate less than a handful of large enterprises do.

The MSE may be divided into two types. The first is the "Subsistence MSE". Though it may be started for diverse reasons, the main objective is to maintain or improve families' living: for example, to send more children to school or to let them receive medical treatment in case of illness. A priority is not given to risk-taking by reinvesting the revenues for business expansion.

The second type is labeled the "Commercial MSE". Though its business is small-scaled, it is willing to grow. Potentially, it can grow into a small enterprise, if it is given better access to capital and chances to receive appropriate support like managerial advice or technical guidance. A number of donors provide technical or financial assistance to such MSEs, calling it "the economically active poor" or "the entrepreneur poor".

Even if micro enterprises have active entrepreneurship and are willing to grow, few of them succeed in their business expansion to grow into a small firm. In Kenya, only less than one percent of all enterprises hire 11 persons or more. The percentage appears even lower in rural areas. As few small enterprises grow into medium enterprises, there are very few SMEs. Although the medium enterprises are able to link with large enterprises including foreign affiliates in the forms of sub-contracting or consignment manufacturing arrangements, large enterprises tend to internalize many manufacturing processes or other functions even at higher costs in the absence of such capable medium enterprises. The consequence is the dual structure consisting of family-run MSEs hiring less than two persons and of large enterprises in cities. Such phenomenon is termed "Missing Middle", referring to the extremely small number of SMEs.

Constraints Faced by Rural MSE

The most serious constraint faced by the MSE in rural Africa is its unfavorable location. As opposed to Asia, the African populations are scattered sparsely. Especially, Africa's rural areas are inhabited by extremely fewer people than in Asia, and therefore the markets are very small. Though this handicap could be offset with efficient access to large urban markets or neighboring villages, rural roads connections are generally poor. In many areas, where trucks are unable to reach producing sites, bicycles or motorcycles are the only means of transportation. Besides, bad security and concerns about the law and order hinder inter-area transportation. For these reasons, rural communities are economically so isolated that MSEs supply goods and services only to a tiny local market. Raw materials and components must be bought only within the community even at higher costs. As a result, many firms make similar goods using only locally available materials, and saturate the tiny local market instantly. Should they make differentiated goods with high value added contents, they could ship them to distant cities even at a high transportation cost. To do this, however, they need to acquire market information in cities and technical know-how as well as better packaging materials and intermediate inputs, which they cannot get locally. Moreover, should they wish to introduce equipment for higher value added manufacturing and better product quality, they would be unable to access electricity or other energy sources. Consequently, agricultural products or livestock must be sold without processing or with elementary semi-processing. Such goods nit only have low value added contents but are lost or rotted on the way to markets.

Worse yet, the under-developed financial mechanisms in rural areas also stand in the way of development. The financial service is more costly in rural areas than in cities. For this reason, few micro finance providers are active in rural areas. Notably, in recent years, because the micro finance institution (referred to as "MFI") is required more strongly to ensure sustainability and managerial soundness, it is now inclined to concentrate its service in cities. As a result, the only financial services available in rural areas are such informal facilities as a rotating saving & loan associations or moneylenders charging high interest rates. Numerous MSEs borrow from such moneylenders, are unable to repay the debts and eventually close their businesses.

Poverty Reducing Scenario by Means of MSE Promotion

In Sub-Sahara Africa, about a half of the populations live below the poverty line. Because 70 to 80 percent of the populations live in rural areas, the strategically most essential task for poverty reduction is to make them economically more active and raise their earnings. In rural Africa, the natural conditions are harsh, political unrests are prevalent and infrastructure is under-developed. Because the population density is lower than in Asia, the local market is small but, due to poor transportation infrastructure, access to markets in cities and other areas is limited. In brief, pre-requisites for activation of the economy are not satisfied. The poverty reduction in rural Africa therefore is an extremely challenging task. Implementation of ad hoc pilot projects in a small area aiming at immediate visible effects would not generate substantial benefits. The task should be addressed from the medium-long run viewpoints aiming at sustainable growth. This section explores how the Japanese assistance program should address the poverty in rural Africa. The section begins with presentation of a scenario where MSE promotion is expected to lead to the poverty reduction, and then makes concrete proposals as to what Japan should do.

For the reduction of rural poverty in the medium/long run perspective, of the utmost importance is to expand the middle class. At present, the situation is symbolized by the phrase, "the Missing Middle": namely, the industrial structure is skewed in such a way that there is a dichotomy consisting of a small number of large firms and numerous MSEs. Missing are small firms which had grown out of micro firms and medium firms capable of performing sub-contracts with large firms. In the experience in Asia, the expanded middle class increases domestic consumptions and activates the economy. The economic boom leads to increased tax revenues, which can be spent on poverty reduction strategies. In this manner, the country will become less dependent on foreign aids and will carry out poverty reduction policies continuously and viably. To expand the middle class, more efforts should be made to promote small/medium, which are to fill the gap of the Missing Middle, by targeting "Commercial MSEs". For this purpose, the assistance on the micro level may be useful as such assistance gives direct impact on enterprises. At the same time, however, the assistance programs on the mezzo and macro levels are also effective as they are expected to improve overall business climate. The argument presented above will be substantiated below.

Improvement of Economic Infrastructure

Certainly, a most important policy for promotion of MSEs in rural Africa is to improve economic infrastructure. In sparsely populated rural Africa, transportation infrastructure like roads and bridges is inadequate and therefore communities are isolated. Because access to both large urban markets as well as to neighboring markets is limited, transportation is costly. As trucks cannot enter the community, the only means is to carry goods to the markets by bicycle riding on bad roads. A bicycle carries only a small lot per each trip and perishable food is rotten on the way. There is no suitable warehouse where crops can be stored. In areas where electric power is not available, even a refrigerator cannot be installed. Such inadequacy of economic infrastructure is a most serious impediment to MSE promotion. Improvement of infrastructure therefore should be given the highest priority.

Sub-Saharan Africa has approximately 700,000 kilometers of rural roads, with half of them in poor condition. Road densities per km are generally much lower than those of Asia or Latin America. Low population densities, low levels of income and weak road planning and maintenance capabilities combine to make Sub-Saharan Africa altogether underequipped and overburdened in terms of rural road infrastructure. In this way, in order to vitalize the rural economy through promotion of rural micro and small enterprises, it is very important to focus on maintaining feeder roads, which connect rural areas with trunk roads. It is necessary to implement both technical and financial cooperation simultaneously for maximizing the effects of (feeder) roads maintenance. It is therefore considered that the Japanese government should be engaged in a comprehensive assistance including infrastructure development, technical and financial cooperation. At the same time, it is also important to design and to consider construction methods, which take into account of the characteristics of feeder roads in Africa.

MSE Promotion on the Micro level

Targeting rural MSEs, the technical/financial assistance on the micro level can also be effective. Because, depending on location, fruit, fish or livestock is potentially productive. Other donors have actively targeted such products. For instance in Kenya, the DFID sponsors training to teach farmers in standards in the EU for quality, food safety and the like to promote export of processed agricultural products to the EU. The DFID also helps install milk-chilling plants to promote sterilization and processing of raw milk collected from nearby dairy farmers. In Madagascar, an assistance program is being implemented in anticipation of increased consumption by foreign tourists to encourage production of high value added agricultural products and their supply to hotels and restaurants in tourism resorts. Because in spacious rural Africa, only most endowed places can produce crops with an export potential and high value added, such assistance is effective only in selected areas. Export of processed agricultural products, however, has favorable linkage effects on other sectors such as distribution and service. Besides, increased value added economically benefits other industries like traders, machine makers and packaging material makers. In the economy thus activated, the middle class will expand, tax revenues will be up, and the poverty can be reduced nationwide. Japan should also actively provide technical assistance to increase value added and international competitiveness of processed agricultural products in selected areas and selected sectors.

Meanwhile, Japan should be cautious as to whether it should assist the micro finance. In the recent decade, many donors assisted MFIs' business expansion in the six studied countries. As a result, NGOs, village banks, saving & credit associations and other MFIs are engaged in micro finance for MSEs. Although MFI's business is in a smaller scale than commercial banks, it will continue to expand. Since under the circumstances where even commercial banks are now interested in the micro finance business due to declining yields of government bonds and considerable amounts of money are hoarded in rural areas, MFIs can mobilize these funds by offering convenient deposit-taking service. In consideration of such situations, Japan's assistance for the micro finance business designed to benefit MSEs directly is eagerly expected.

Industrial Promotion on the Mezzo Level and Support to Strengthen Financial Mechanisms

Unsatisfactory governance such as cumbersome administrative procedures and harassment by field officers also impedes MSE's expansion. In the context of private sector development, the improvement of business climate surrounding MSEs is important. Keenly interested in this kind of assistance, the World Bank and European donors have started a number of projects. However, it appears very difficult for Japan alone to provide this kind of assistance in rural Africa.

In the light of the above argument, should the Japanese donor provide assistance for industry promotion or strengthening of financial mechanisms on the mezzo level, the wisest way would be to collaborate with experienced other donors on the basis of the supporting frameworks built by them. Through this collaboration, Japan may find out a niche field where it can use its comparative advantage. Such option appears the most efficient and effective approach.

Ways to Conduct "One-Village-One Product" Campaign

The One-Village-One-Product Campaign initiated in Ohita Prefecture in 1979 has become the symbol of Japan's local economic development efforts and spread all over the world. In Thailand, introduced as the OTOP (One Tambon One Product) Campaign, it is designed to put out an area-specific product with good quality to be sold in and outside the country based on the local resources and local culture. We find another successful case of this Campaign in Africa. Malawi, in particular, introduced this Campaign in 2003, and a variety of area-specific products have been developed with technical support from JICA. Many of these products become widely available at urban markets. The expansion of agro-processing work is expected to increase the revenue of local farmers, who provide raw materials. The background of the success of this Campaign is self-initiative of village inhabitants toward local economic development efforts. The Campaign should be most successful, where local inhabitants have a greater independence and creativity to realize objectives of the Campaign, by even mobilizing their own resources. As a matter of principle, the campaign should be initiated in the context of rural development by village inhabitants in a bottom-up manner. This principle, however, has not been fully understood and has been superseded and diluted by the slogan. For example, according to the Study Mission's field investigation, the campaign has been led by the government with adverse effects. Without bottom-up participation by village inhabitants, the Campaign is nothing more than physical production of a government-specified product. Moreover, the Campaign, which has been reasonably successful in Japan, Thailand and elsewhere in Asia, cannot be readily copied in Africa. The nature of the community and its relationship with its members seem different between Africa and Asia. In waging this Campaign, a caution should be used in this difference.

Ⅰ. General Statement

1 Current Status of Micro and Small Enterprises in Rural Africa

In order to achieve “Poverty Reduction through Economic Growth” in Africa proposed by TICADIII, economic activities need to be made vigorous on an extensive grass-root, community level. In Africa, 70 to 80 percent of the populations live in rural areas, the population density is low, the natural conditions are harsh, and natural resources endowment is limited. Consequently, non-primary industries suffer comparative disadvantages, and, in rural areas, chances to increase revenues or job opportunities are small. Meanwhile, the productivity of agriculture, the major rural industry, tends to be stagnant because of farmers’ low purchasing power, shortages of input materials and inadequate distribution facilities connecting farmers and consumers. To eliminate these handicaps, the most essential is to diversify and activate the rural economy in an attempt to increase revenues and create jobs.

For promotion of local industries in rural areas, steps need to be taken to empower entrepreneurs and the micro and small enterprises (referred to as “MSE”) by furnishing market information, providing technical training, upgrading business-plan-making ability and establishing supply chains. Moreover, most of rural MSEs have poor access to capital, which impedes their day-to-day operations of business and its expansion. In consequence, urgently needed in rural areas are to channel more capital there in a way to establish solid financial facilities hopefully leading to sustainable economic expansion. This paper, in its beginning part below, outlines the current status of African rural MSEs based on our studies in the six countries.

1.1 Definition and Types of MSE

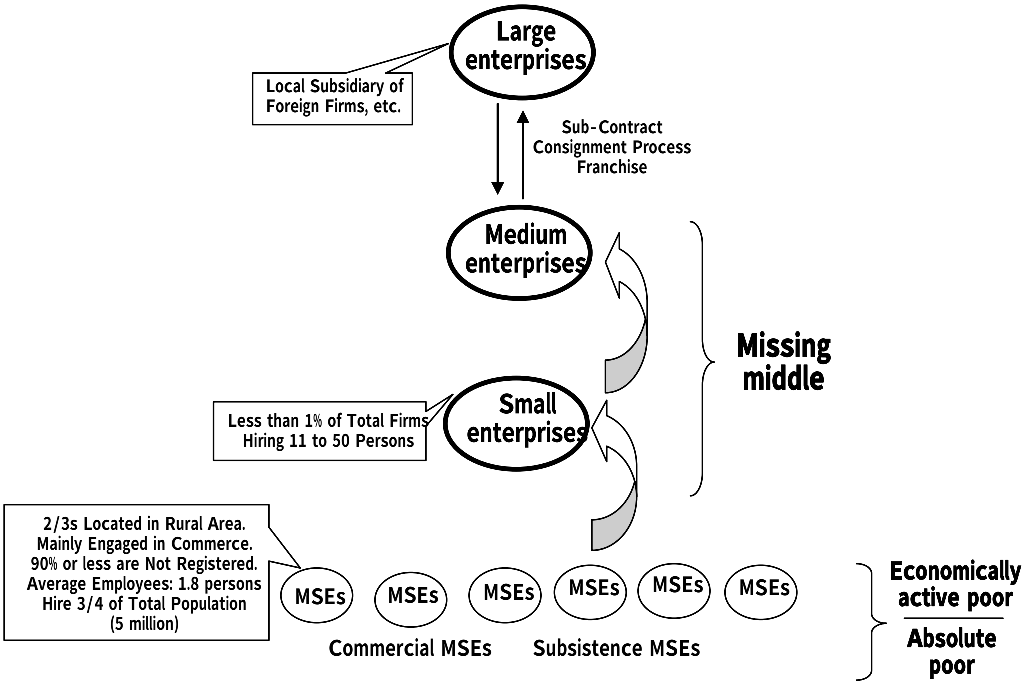
In Africa other than the Republic of South Africa, where indigenous manufacturing enterprises are rarely large enough to be called “small and medium enterprises (referred to as “SME”), most enterprises are MSEs, which are based in villages and engaged in labor-intensive activities. Especially in rural areas, MSEs are the dominant majority, mostly run by self-employed owners, and, even in an aggregation of products of many of them, generate less than a handful of large enterprises do.

Despite a few variations from country to country, the MSE is usually defined in accordance with the number of employees, asset values or annual revenues. In many countries, the enterprise employing up to five or ten persons is defined MSE, which is to include a self-employed firm without any non-family employee. Such MSEs often belong to the so-called informal sector without registration at the authority. As a result, their activities, even their numbers, are rarely known. In response to growing interest in the MSE, however, the governments and international donors have been trying to find out what they are doing. For example, according to a survey in 1999 in Kenyan MSEs, out of the nationwide enterprises totaling 1,710 thousands, 1,700 thousands, 99 percent, are MSEs. While the largest 1,000 enterprises produce 30 percent of Kenya’s GDP, MSEs, though numbering 99 percent of the total, contribute only 20 percent to GDP. The contrast testifies that numerous MSEs suffer low productivity, low value added contents and inefficiency. Many hurdles thus need to be cleared in order to enable the MSE to drive the economic growth.

The Figure below depicts the current status of Kenya’s rural MSE. The study cited above reports that two-thirds of MSEs are located in rural areas, employing three-fourths of the active population. A little less than 90 percent of them have not registered, belonging to the informal sector. Most of them are engaged in commerce, agricultural processing or a variety of services raging from repairing to barbers. Their average employment size is 1.8, and they are mostly family-run. They do not make much profit, and, at most, barely cover minimum wages. Their family revenues are just near the poverty line.

The MSE may be divided into two types. The first is the "Subsistence MSE". Though it may be started for diverse reasons, the main objective is to maintain or improve families' living: for example, to send more children to school or to let them receive medical treatment in case of illness. A priority is not given to risk-taking by reinvesting the revenues for business expansion. People outside the family are rarely hired. Consequently, any business support like training or managerial advice for this kind of MSE seldom leads to its evolution into a small enterprise. Especially in rural areas, such MSEs are prevalent.

The second type is labeled the "Commercial MSE". Though its business is small-scaled, it is willing to grow. Potentially, it can grow into a small enterprise, if it is given better access to capital and chances to receive appropriate support like managerial advice or technical guidance. A number of donors provide technical or financial assistance to such MSEs, calling it "the economically active poor" or "the entrepreneur poor". How to distinguish the Subsistence MSE from the Commercial MSE is a delicate question. Some MSEs may be poor now, but have progressive entrepreneurship. Conversely, some MSEs succeed moderately, but may not be eager to grow further. Such selection can be made only by such observer that has insight into current situations of communities where the MSE in question is located as well as entrepreneur's business plan through contacts with the firm during the financial/technical aid implementation.



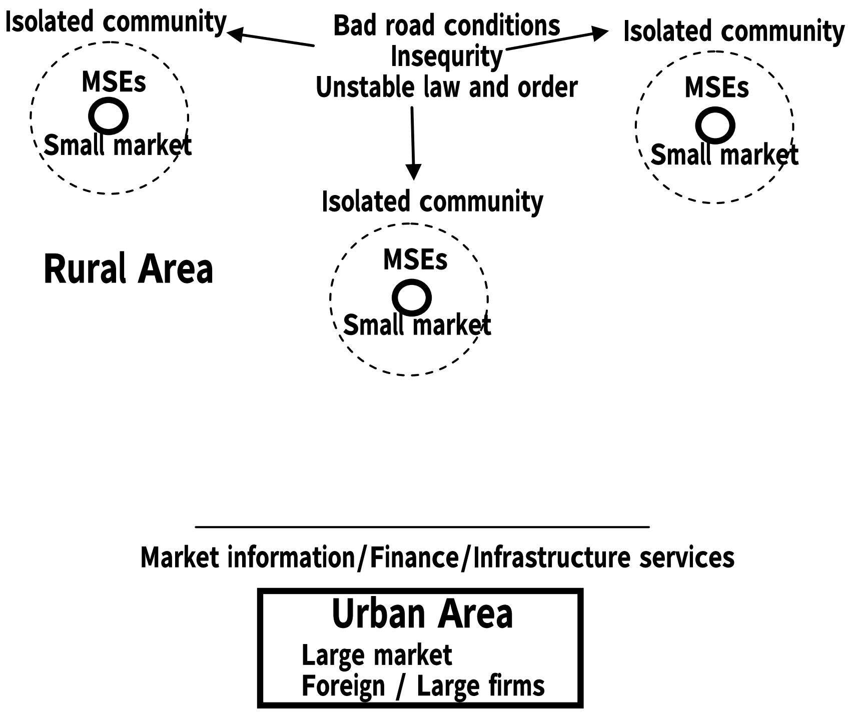
Source: the Study Mission

Figure 1-1 MSE in Africa (Kenya's example)

Even if micro enterprises have active entrepreneurship and are willing to grow, few of them succeed in their business expansion to grow into a small firm. In Kenya, only less than one percent of all enterprises hire 11 persons or more. The percentage appears even lower in rural areas. As few small enterprises grow into medium enterprises, there are very few SMEs. Although the medium enterprises are able to link with large enterprises including foreign affiliates in the forms of sub-contracting or consignment manufacturing arrangements, large enterprises tend to internalize many manufacturing processes or other functions even at higher costs in the absence of such capable medium enterprises. The consequence is the dual structure consisting of family-run MSEs hiring less than two persons and of large enterprises in cities. Such phenomenon is termed "Missing Middle", referring to the extremely small number of SMEs.

1.1.2 Constraints Faced by Rural MSE

For "Poverty Reduction" through Economic Growth", MSEs need to be encouraged to expand, being the dominant majority of enterprises. In consequence of micro-to-small and small-to-medium evolutions, firms are expected to link with large firms, both domestic and foreign, to sharpen competitive edges and to export more. However, African MSEs, especially rural MSEs, face diverse impediments to their expansion into small firms.



Source: the Study Mission

Figure 1-2 Geographical constraints faced by MSE in rural Africa

The most serious constraint faced by the MSE in rural Africa is its unfavorable location. As opposed to Asia, the African populations are scattered sparsely. Especially, Africa's rural areas are inhabited by extremely fewer people than in Asia, and therefore the markets are very small. Though this handicap could be offset with efficient access to large urban markets or neighboring villages, rural roads connections are generally poor. In many areas, where trucks are unable to reach producing sites, bicycles or motorcycles are the only means of transportation. Besides, bad security and concerns about the law and order hinder inter-area transportation. For these reasons, rural communities are economically so isolated that MSEs supply goods and services only to a tiny local market. Raw materials and components must be bought only within the community even at higher costs. As a result, many firms make similar goods using only locally available materials, and saturate the tiny local market instantly. Should they make differentiated goods with high value added contents, they could ship them to distant cities even at a high transportation cost. To do this, however, they need to acquire market information in cities and technical know-how as well as better packaging materials and intermediate inputs, which they cannot get locally. Moreover, should they wish to introduce equipment for higher value added manufacturing and better product quality, they would be unable to access electricity or other energy sources. Consequently, agricultural products or livestock must be sold without processing or with elementary semi-processing. Such goods nit only have low value added contents but are lost or rotted on the way to markets.

Worse yet, the under-developed financial mechanisms in rural areas also stand in the way of development. Though this subject will be touched upon again in the next section, the financial service is more costly in rural areas than in cities. For this reason, few micro finance providers are active in rural areas. Notably, in recent years, because the micro finance institution (referred to as “MFI”) is required more strongly to ensure sustainability and managerial soundness, it is now inclined to concentrate its service in cities. As a result, the only financial services available in rural areas are such informal facilities as a rotating saving & loan associations or moneylenders charging high interest rates. Numerous MSEs borrow from such moneylenders, are unable to repay the debts and eventually close their businesses.

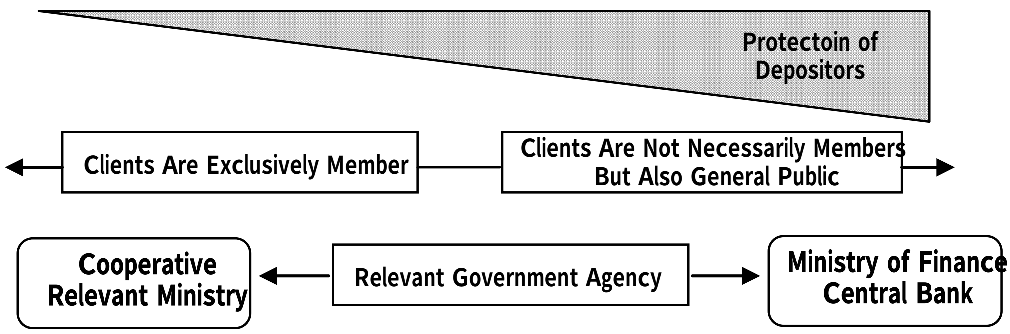
2 Financial Facilities in Rural Africa

2.1 MSE’s Access to Financial Services

2.1.1 Kinds of Financial Services in Rural Africa

Table 2-1 lists kinds of financial services provided in rural areas in the studied six countries, and Figure 2-1 shows their relevant government agencies. Though the MFI is defined differently from country to country, it broadly corresponds to the semi-formal organization (surrounded by heavy lines in Table 2-1) sandwiched between the formal organization and informal organization. Recently, although in many countries the MFI is being formalized through MFI-related legislations in a way to make it more prudent and sustainable and to make its service available not only to its members but to the general public, diverse problems are arising from the transitional status as will be described later.

While history of the micro finance is relatively short in most countries, its service has swiftly become extensively available in the last decade or so. Some MFIs, like Ghanaian credit unions, have long history, while others, like Kenya’s and Uganda’s SACCOS, which used to be active in the past but have become dormant afterward, have recently been reactivated and strengthened as important financial service providers in rural areas.



Source: the Study Mission

Figure 2-1 Relevant authorities governing MFI in rural areas

Table 2-1 Kinds of financial services in rural areas

	Informal Organization	Semi-Formal Organization Member-Owned Lend to Member Only	 Non-member-Owned Lend to Non-Members	Formal Organization
Kenya	Susu ROSCAS	・Village Bank (member-owned, lend, deposit, remit) ・MFI ・SACCOS	?← MFI→? (After 2008, will MFI be polarized?)	・K-Rep Bank ・KWFT ・Equity Bank (mainly saving) ・Kenya Post Office Savings Bank (KPOSB)
Uganda	ROSCAS	・Village Bank ・SACCOS increasing fast (Many MFIs becoming SACCOS) About 750 active, among them, about 50 are sound. ・MFI (deposit-taking only from members)	←MFI→ (MFIs being polarized.)	(1) Commercial Bank ・2: lend to MFI ・1: takes deposit and has ATM. ・1: micro finance to group & individual ・3: take deposit, have ATM and lend securing salaries. (2) 4 MFIs (take deposit)
Zambia	ROSCAS	Credit union NGO	MFI	
Madagascar	NGO-led MFI	Member-based mutual-help society Community-based cooperatives SACCOS	Not member-based mutual help society MFI resembling bank	Bank of Africa
Ghana	・Susu collector ・Susu assoc. (ROSCAS) ・Susu club ・Susu company	・Credit union (member-owned, lend only to members.) ・NGO-MFI (lending only)	・122 rural banks (member-owned, Mainly deposit-taking in rural areas, financial services only for non-members) ・2 saving & loan companies (individual-run company for profit)	・Link between a commercial bank (Barclays) and rural financial service providers (Susu, credit union, etc.)
Senegal	・NGO-MFI ・Organization for saving & loan ・Tonchin (rotating saving & loan assoc.)	・Mutual-aid assoc. for deposit & loan		・Caisse Nationale de Credit Agricole du Senegal (CNCAS) ・Postal saving

Note: Exclude informal mechanisms that are not subject to administrative control like borrowing from relatives or other acquaintances and from moneylenders.
Source: the Study Mission

2.1.2 Rural MSE's Access to Financial Services

In each of the six countries, rural MSE's access to financial services is poor. Since the micro finance is not a lucrative business due to high costs for taking deposit and making credit, it is rarely provided in remote, rural areas.

Kenya

The Kenyan micro finance has a relatively short history. Though a few oldest MFIs were started in the 1980's, its full-scale operations began only a decade ago when many more entered into the business. Kenyan MFIs are diverse, consisting of government-registered institutions belonging to the formal sector and unregistered ones belonging to the informal sector. They are also divided into those targeting unspecified clients including non-members and those targeting only their members.

Uganda

Depositors total 935,000, while borrowers number 400,000. The main clients are non-farm enterprises in cities and their suburbs. The lending per client averages at Shs 262,533 (US$ 30). Relatively larger MFIs based in cities have a large combined share, while rural MSE's is hardly accessible. Loan to rural MSEs with inadequate credit-worthiness would be in a small amount and with a short maturity, should it ever be made. MSE's limited access to long-term financing is a high barrier to business operations and expansion.

Zambia

Though MFIs are major providers of financial services to MSEs, MFI's assets are far less than commercial banks. In 2004, MFIs reportedly met only four percent of demands for them, which is far less than enough.

Madagascar

In an attempt to make up banks' weakness in rural areas, the micro finance was initiated there in the 1980's. In the early 1990's, the first MFI was founded with the initiative and cooperation of the government assisted by such donors as the World Bank, AfD, GTZ, UNDP, and EU as well as MFIs experienced elsewhere in Africa. By June, 2006, the country's MFIs network had been joined by 413 institutions and 273, 558 individuals. More micro finance services are being demanded because, in Madagascar, only three percent of the populations keep bank accounts and accessibility of financial services is one of the poorest in the world.

Ghana

NGOs are the majority of financial service providers in rural areas. Of the five largest MFIs, three are NGOs and the remaining two are non-banks. MFIs sometimes use Susu, informal financial service provider, as their arms in an attempt to expand their client base and business among low-income people, making use of Susu collectors' area-specific knowledge on clients. Also, Susu collectors are useful because, in addition to lending, they take deposit in response to clients' demand. MFI's drive to expand its business through arms of Susu organizations helps link the active informal sector with the formal sector as it turns out.

Senegal

At end-2002, MFIs collected 4.0 percent of the country's deposits, lent 4.3 percent of the total outstanding loan, and accounted for 47.7 percent of the financial sector's employees. MFI's clients increased from 291,328 in 2000 to 510,883 at end-2003, when their lending reached FCFA 57.8 billion (130 million yen) and deposits amounted to FCFA 42.1 billion (100 million yen). Highly valuing MFIs' contribution, the West African States Central Bank (BCEAO) estimates that two out of three households in Senegal have been benefited by MFIs. According to available information, in 2003, 40 percent of the Senegalese, including those scattered locally, used financial services in one way or another.

2.1.3 Problems of Financial Service Providers

The study in the six countries has revealed the following problems on the part of financial providers in conjunction with rural MSE's access to them:

Low Liquidity (Shortages of Capital)

Because most MFIs are unable to meet demand for lending solely with collected deposits and other resources at hand, they rely on borrowing from commercial banks as well as loan or grant from governments, foreign donors, NGOs and others. For example, the operational funds of FINCA, an MFI in Uganda, consist of collected deposits, 21 percent, short-term (a year or shorter) loan from commercial banks, 50 percent, and its own funds. Because most of its funds are borrowed on short-terms, FINCA is unable to satisfy client's demand for long-term financing. Although MFIs in cities can raise funds relatively easily, small MFIs, for example credit unions often found in rural areas, cannot raise funds from urban commercial banks or government's loan programs. Even if an MFI is member-based and small at its inception, successful business could stimulate members' desire to borrow a larger amount with a longer repayment period. If an MFI satisfies their needs promptly, the borrower MSE could grow into a small or even medium enterprise. Rural MFI's limited liquidity position, however, actually stands in the way for such evolution.

Inadequate Expertise of Staff

MFI's staff, especially rural MFI's, is not well trained and not sufficiently empowered. Notably, membership-based MFIs in remote, rural areas are founded and operated by local people who are not necessarily financial professionals. Not equipped with appraising expertise, such MFI will not be able to find appropriate bankable projects when current investment in government bonds is judged no longer profitable and therefore alternative ways of investment need to be looked for. In addition, because they are not normally supervised by the Central Bank or the Ministry of Finance, their functions are not subject to supervision/monitoring as rigorous as commercial banks or other formal institutions are. They often fail to send regular financial reports to the supervisory agency. Even if they were submitted regularly, the staff of the supervisory agency would not be able enough to properly exercise their authority.

Without proper regular checks, such voluntary organizations as a rural MFI would not serve as a sound financial institution. Because many member-based MFIs are not-for-profit entities and their operational surpluses are likely to be promptly recovered by the members in such forms as dividends, lower lending rates or higher deposit rates, they are prone to remain financially fragile unless the management clearly aims otherwise as a matter of principle.

Under-Developed Infrastructure

Due to inadequate road networks, MFI's staff finds it hard to visit borrowers and monitor their conditions on the site. Typical MFIs do not have enough means of transportation like a car. Such under-developed status hampers MFI's activities in rural areas, confining them in cities. Financial institutions like laws, regulations and supervisory powers over the MFI are not yet developed sufficiently to prevent even donor-financed MFI's collapse. Depositors are not well protected, apex bodies' supervision is not legally binding, and their supervising/monitoring staff and financial bases are not enough to ensure MFI's satisfactory functions.

Framework of Government's Policy Making/Execution

In the studied six countries, the authority responsible for the MFI is either the Ministry of Finance teamed with the Central Bank or other Ministries such as those overseeing cooperatives. From the yardstick of ensuring protection of depositors and financial soundness, the Ministry of Finance and the Central Bank are more suitable for rigorous supervision, while other Ministries are more lenient and tend to cause dubious sustainability and lack of soundness. On the other hand, the MFI prefers to avoid tight control of the Ministry of Finance and the Central Bank even if such preference limits their range of activities.

In many countries, debates are taking place as to which agency should supervise the MFI. During such debate, inter-Ministerial rivalry is often causing inconsistent policy making and implementation. For example, in Ghana, as the Ministry of Finance and the Bank of Ghana on one hand and the President's Office on the other are competing to acquire the power to supervise the MFI. Opinions are divided respecting whether the President's Office should provide the MFI with resources for lending. In Kenya as well, where both the Ministry of Labour and the Ministry of Trade & Industry are responsible for MSE promotion, desire for unified jurisdiction is heard among field staff.

3 Promotion of Rural MSE

For poverty reduction in Africa, economic activities must be made vigorous in rural areas, where about 80 percent of the populations live. To this end, mere agricultural development is not enough but rural MSEs must be promoted to increase non-farm income. Given that the non-farm business is dominated by MSEs, their promotion is of strategic importance for poverty reduction. This section therefore sums up MSE promotion policies currently undertaken in African rural areas. First, the roles of MSE promotion policies in the six countries' development policy frameworks are identified, and, then, their states of implementation are reviewed from technical and financial perspectives.

3.1 Significance of MSE Promotion Policies in the Context of Poverty Reduction Strategy

In less developed African countries, making a Poverty Reduction Strategy Paper (PRSP) and executing development policies based on such plan have recently become fashionable. Under the circumstances where MSEs are the dominant majority of enterprises, as explained earlier, the MSE promotion policy must be accorded its proper significance in the PRSP. The Table below shows the roles of MSE promotion policies assigned by the six countries under investigation.

Although languages and approaches differ, every country explicitly commits itself to MSE promotion in its PRSP. Ghana's Second Poverty Reduction Strategy (GPRS II) of 2005 sets forth support of MSEs, while the Private Sector Development Strategy (2004-2008) envisages that MSE's evolution, namely its graduation to the formal sector, will lead to economic growth through job creation. In Ghana, the Ministry of Private Sector Development and the National Board of Small-Scale Industries are jointly responsible for MSE promotion, improving business climate and putting in practice plans to promote rural industries.

In Kenya, the PRSP was written in 2004, defining the MSE promotion policy as one of outputs targeting economic growth. The Private Sector Development Strategy (2006-2010) drawn up by the Ministry of Trade & Industry explicitly highlights strengthening of MSE's competitiveness as a strategic objective, which is substantiated by such concrete measures as support of business start-up and improvement of access to capital.

In Zambia's PRSP (2002-2004) as well, MSE promotion through development of economic sectors was signified as a poverty reduction strategy. The PRSP went on to spell out the manufacturing promotion programs for poverty reduction, where concrete means were proposed from the viewpoints of "SME promotion", "Rural industrialization" and "Upgrading of skills and technologies". Starting in 2006, the Fifth National Development Plan (FNDP) has replaced the PRSP, where the Government declared its willingness to promote micro, small and medium enterprises (referred to as "MSME") and rural industrialization.

Uganda also regards MSE promotion as a policy for poverty reduction. The Poverty Eradication Action Plan 2004-2007 (PERP) pinpoints promotion of MSEs and the micro finance as action plans "to strengthen the financial sector which is to increase production of goods and services." Uganda's approach is characterized by its broadly-encompassed viewpoints covering inter-Ministerial coordination, improvement of ability in vocational training, infrastructure development and other things. Though the Senegalese planning document does not explicitly refer to the MSE, the rural MSE promotion is conceptually included in relation to diversification of rural activities and improved access to agricultural credit.

In Madagascar, the comparable document does not specifically refer to the MSE support, either, but pertinent measures are being implemented in the broader framework of promotion of the private sector and improvement of investment climate.

Table 3-1 PRSP priorities for MSE

Sector	Ghana	Kenya	Zambia	Uganda	Madagascar	Senegal
MSE	・Improve diffusion of appropriate technologies and vibrant training programs. ・ Promote the generation of non-farming employment in rural areas. ・Increase provision of useable vocational training schemes. ・Reform of traditional land administration system to give those in the informal sector access to land as a monetary asst. ・ Reform or strengthen traditional apprenticeship systems. ・ Support organizations of persons with disabilities and organizations that represent the poor. ・Promote proficiency of technologies and advancement of informal sector labor force. ・ Develop systems/mechanisms to facilitate coordination and	・ Improve technology development and transfer through participatory group extension and private sector development. ・Open new markets for labor-intensive manufactures, services and agro products. ・ Institute support measures targeted at providing adequate infrastructure and development of technical and management capacity for the growing and small enterprise sector. ・Implement action plan to stabilize street vendors and hawkers who represent 70 % of the MSE sector. ・ Privatize the World Bank-financed MSE Training & Technology Project to allow it act as a catalyst for the provision of services to the Jua Kali sector.	・ Facilitate training and re-training in entrepreneurship skills for the unemployed. ・Increase the number of entrepreneurs receiving training in business management and technical skills to 500 by 2004. ・Support the construction of industrial estates for leasing to MSMEs. ・Encourage the supply of intermediate inputs from MSMEs and large-scale firms. ・Encourage procurement of goods and services from MSMEs, especially in health and education sectors. ・Review and harmonize the existing legal/ regulatory framework to remove barriers to smooth operation of MSMEs. ・Increase the number of enterprises registered with the Small Enterprises Development Board (SEDB) from 150/annum to 300/annum by 2004. ・Encourage the repeal or amendment of any statutes/ regulations That hinder women and	・ Establish 850 polytechnics by 2003. Increase number of trained graduates to 100,000 by 2003. ・Expand the outreach of micro finance services to districts and locations. ・ Consolidate government program in the MFI sub-sector and entrust credit delivery to private sector-led MFIs. ・Formulate supportive policies. ・ Transfer funds recovered by the Youth Entrepreneurs Schemes (YES) and the Entandikwa secretariat as lines or equity to sustainable micro finance institutions. ・Promote micro export.	・Empower domestic firms, SMEs and handicrafts. ・Improve access to rural financing. ・ Promote market-oriented activities. ・Diversify activities in rural areas. ・Increase agricultural value added and promote agri-business.	・Modernize judicial process. ・ Simplify administrative processes relating to investment climate. ・Reform institutional mechanisms for assisting the private sector. ・Activate training in business. ・ Facilitate communication. ・ Establish the framework to support the private sector

	linkages between the formal and informal sectors of the economy. ・ Establish small business enterprise zones with support infrastructure and Intermediate Technology Transfer Unit (ITTU) advisory services in profitable locations in Tamale, Takoradi and Cape Coast by 2002.		youth the access to, and control of productive resources: e,g. land, credit, information and technology. ・Design and implement measures that will facilitate expeditious acquisition of titles to land to ensure improved access to credit finance for MSMEs. ・ Encourage the participation of women and youth in private/public credit schemes. ・Facilitate provision of appropriate energy sources for SMEs, especially rural-based ones. ・Provide business and trade information to MSMEs and informal sector entrepreneurs.			

Source: the Study Mission

3.2 MSE promotion through Non-Financial Measures

For promotion of rural MSEs as set forth in the PRSP, the Governments of the six countries under study are implementing a variety of policies in liaison with donors, NGOs and private business organizations. These policy measures consist of financial measures like loan and non-financial measures like technical advice and economic infrastructure development. Described below are the non-financial measures to begin with.

3.2.1 Support of Marketing

A major problem faced by rural MSEs is small size of the market. Even if superior products should be made, the local market would be too small to absorb them, but local infrastructure is not good enough to enable MSEs to ship them to other areas such as cities. Besides inadequacy of transportation, information is not smoothly channeled to rural areas in a way to let consumers know producers' situations while producers do not know consumers' demanded. Consequently, diverse assistance programs for marketing are being executed to connect rural MSEs with urban consumers and to improve access of products made in rural areas to urban markets. An example for such assistance is to organize a fair to exhibit MSEs' farm products, processed or unprocessed, to demonstrate them directly to urban consumers. Besides, assistance is sometimes given so that hopeful products will be shipped to trade fairs in neighboring countries or industrial countries. Especially, aiming at exporting to the EU, information is being furnished to rural producers respecting EU's standards for quality, sanitation and food safety, sometimes in combination with technical assistance for compliance with these standards.

3.2.2 Formation of Clusters

In order to expand rural MSEs and bridge a gap of the Missing Middle, various attempts are being made to form clusters in diverse sectors. For example, Ghana's Textile City is designed to form a cluster of enterprises in the sector, while Kenya's Jua Kali estate is to gather a variety of local industries. For cluster formation, industrial estates are built with infrastructure ranging from power supply to water/sewerage facilities to encourage MSEs to move in. Clustering MSEs can meet a large-scale order from large firms. Moreover, such MSEs can place a large lot order collectively to buy raw materials and intermediate goods at lower costs. For joint use, MSEs can install testing equipment and tool machines, which they could not use alone due to their large scale. There are also cases where MSEs in the cluster form a saving and loan cooperatives (SACCOS) so that they can take advantage of the cluster formation respecting fund saving facilities. Large firms as well can cut transaction costs drastically by avoiding negotiations with each MSE.

3.2.3 Strengthening Value Chain Linkages

Assistance is being provided as well to help form and tighten a value chain linkage between product/finance markets and traders, aiming at increasing value added contents of specified agricultural products and export promotion. The examples are: USAID's projects in Uganda and Zambia, World Bank/IFAD's Competitiveness Approaches in Madagascar and Ghana, and DFID's BSMDP project in Kenya designed to promote small farmers' export of vegetable, fruits and livestock to the EU. As a comprehensive model for extensive development and growth, the USAID-assisted project named "Support for Private Sector Expansion and Development (SPEED I and II, 2000-2004, 2005) in Uganda is another example[1]. This project was designed

1 USAID Microenterprise Development Office, "Microfinance Umbrella Programs Study: An Analysis of USAID Experiences Using Umbrella Programs to Support Microfinance Markets and Institutions", July, 2006, pp. 87-105.

to implement on the basis of a multi-project linkages, and of an across-the-board approach covering various functions consisting of financial services, enterprise fostering and improvement in business climate, so that linkages would be made closer between each partner in the value chain—producers, their cooperatives, wholesalers, exporters and importers. The project also helped improve quality of BDS providers, commodity mediators and industry associations to improve MSE's access to BDS. The targeted crops were cotton, maize and coffee.

3.2.4 Preferential Procurement from MSEs

A few cases are observed in Kenya, Zambia and others, where the Governments gave preferential treatment to MSEs respecting their procurement. Notably, in Kenya, beginning in January, 2007, the Government is obligated to buy at least 25 percent of procured goods from MSEs[2]. Since the new rule applies to all the procurements by the Government, its impact is expected to be sizeable. To be eligible for this favor as an MSE, the enterprise must duly register. Consequently, this policy will hopefully lead to formalization of MSEs currently remaining in the formal sector.

3.3 Strengthening Financing Mechanisms for MSE Promotion

Financing measures for promotion of rural MSEs are also being eagerly executed in each country. Especially, various approaches are used to strengthen financial mechanisms for supporting rural MSEs. Described below are these measures taken by governments, donors and financial service providers.

3.3.1 Formalization of MFI through Improved Legislative Frameworks

In rural Africa, MFIs are the most active financial service providers. Because their quality is mixed, however, the governments are trying to convert them into formal institutions by enacting laws governing MFIs in a way to make them financially sound and sustainable and to improve borrowers' access to their services. Most notable are legislations in Uganda, Kenya and Ghana to enable the MFI to collect deposit from unspecified many clients. As distinct from the other parts of the world, rural inhabitants in Africa tend to demand deposit-taking more strongly than loan. Although they have a habit of saving in kind like livestock or grain, such means of saving are vulnerable to changes in natural conditions as well as to theft and other security risks[3]. In rural areas, MFIs such as SACCOS and credit unions provide financial services such as deposit-taking and lending exclusively to their members. To become a member, however, payments in specified amounts are required for admission and share purchase. As a result, those who cannot afford are not allowed to become a member. Moreover, because the deposit-taking is normally for a short-term, asset accumulation by means of long-term saving is difficult.

In Uganda, the Micro Deposit-Taking Institution Act has been put into force. The Act is designed to convert the MFI into a Micro Deposit-Taking Institution (MDI) supervised by the Central Bank so that it can collect deposit not only from its members but from unspecified many clients in response to demand of the majority of the public. The MFI welcomes the new Act because it will enable it to raise funds needed for lending from new sources. In Uganda, MFIs are being formalized, as four MFIs based in cities have become MDIs. (shifting to the right in Table 2-1) On the other hand, however, a number of MFLs, which do not want to place

2 Based on the interview with Mr. Joseph Njeru of the Kenyan Ministry of Trade & Industry on February 20, 2007.
3 As distinct from the other Continents, there are more depositors than borrowers in Africa. Based on: "Microfinance Information Exchange, Benchmarking African Microfinance: 2005", November, 2006, p.2.

themselves under the cumbersome supervision of the Central Bank, have chosen to convert themselves into SACCOS providing services only to the members. (shifting to the left in Table 2-1) In this manner, Uganda's MFIs are being polarized. In the meantime, as a result of conversion into MDIs, their portfolios have been made financially sounder in line with the regulations set by the Central Bank, but such sound banking has reportedly reduced the number of borrowers[4].

In Kenya as well, the Microfinance Act is being enacted to stipulate ways to license, regulate and supervise the MFI. Based on the premise that deposit-taking is a major means to stabilize people's life by shielding them from unpredictable crises, consideration is being made whether the Act should allow non-bank MFIs to take deposit.

In Ghana, the Microfinance policy is being formulated with a view to making clear supervisory frameworks over the micro finance business. The policy is expected to designate the Ministry of Finance as the anchor Ministry, while the Central Bank will supervise rural banks and saving & loan companies. When enforced, the Act will unify the agencies responsible for administrative procedures including licensing, and hopefully will facilitate the micro finance business.

Due to formalization of MFIs, however, rural MSE's access to capital has sometimes become worse. The supervision of the Central Bank has been more rigorous than other agencies' supervision made before the formalization, requiring soundness and sustainability suitable to a financial institution. Some MFIs have started to concentrate business in cities where clients are more easily accessible and monitoring of borrowers is easier. To look for new clients in rural areas, the MFI needs to enhance its own capability.

3.3.2 Forming MSEs' Organization

In remote rural areas in many African countries, frequently found financial service facilities with low transaction costs and low risk are: member-owned cooperatives serving only their members, self-help groups and saving & credit cooperatives, which are called SACCOS in Eastern Africa and correspond to credit unions in Madagascar and Western Africa[5]. In the case of such organizations, the members may work voluntarily without compensations until the organization can afford to pay salaries to controllers and the Management Committee members, so that transaction costs in remote areas and personnel costs will be cut. Because the members are acquainted with each other, costs for credibility information can be low. Mutual watches by members living in a small community are also conducive to sound banking. Normally, as the management and staff are not well educated, the organization provides only simple services like regular deposit-taking and loan to make book-keeping easy.

Under such circumstances in Uganda, efforts are being made to form SACCOS where private BDS staff will be hired to improve rural MSE's access to finance. In Kenya as well, attempts are being made to organize MSEs in each sector by constructing industrial estates where MSEs are encouraged to form clusters and a SACCOS within each sector. The SACCOS is considered useful vehicle for MSE's fund raising.

However, the revenues and funds for lending of SACCOS come from only members' share payments, interest paid by borrowers and a few others. Members' deposits and share payments are not enough to keep liquid assets to meet demand for lending. Consequently, the SACCOS

4 The same source with that cited in footnote 3

5 Cited from: Hirschland, Madeline, "Beyond Full Service Branches: Other Delivery Options", Ch.8 in "Savings Services for the Poor: An Operational Guide", Bloomfield, Connecticut: Kamarian Press. (forthcoming); and Geetha Nagarajan and Richard L. Meyer, "Rural Finance: Recent Advances and Emerging lessons, Debates and Opportunities", June, 2005, p44.

suffers a shortage of liquidity unless it can access external financial sources. Moreover, because the current system requires the members to make share payments, regularly make deposit and pay regular dues, those who cannot afford to make such payments are not eligible for the membership. When the members undertake management, the governance becomes an issue. In the event where the management without business expertise makes lending decisions, such loan is unlikely to be repaid on schedule. A small group of the members may abuse their power and lend a large amount of money to a few managers in a way to cause default. Therefore, essential requirements are to appoint a capable person with business expertise and mind-set as a manager, to form a day-to-day checking scheme, and to avoid giving too strong power to a single manager. Respecting cooperatives (credit unions in Western Africa, and SACCOS or village banks in Eastern/Southern Africa), attention should be paid to the one-member-one-vote principle without regard to the number of shares held by each member as opposed to the rule of a joint stock company where shareholder's voting right corresponds to the number of shares held by him/her. This principle may dissatisfy large contributors and discourage them to keep their membership.

In Western Africa, the SACCOS has unfavorable perception among the public because it reminds people of political conflicts and embezzlement in the past[6]. Even recently, some of them have allegedly made payments for unknown purposes and have often been criticized for dubious governance/management. Furthermore, although Kenyan SACCOS has a large amount of funds, it lends almost exclusively to the members and rarely to non-member MSEs. On this account, SACCOS' contribution to improvement of MSE's financial position may not be assured.

3.3.3 Linkage between Informal/Semi-Formal Financial Institutions and Formal Institutions

As remarked above, the informal and semi-formal financial institutions in rural areas are reasonably successful in reducing transaction costs and risks because of their operations in small areas. On the other hand, some of them find it difficult to maintain sufficient liquidity and to make long-term loan for borrower's investment in equipment due to inability to borrow a substantial amount of money on a long-term basis,

On the other hand, some semi-formal and formal institutions are necessitated to find new clients in rural areas because of tougher competition in cities and declining yields of government bonds bought in the past. Notable in Ghana is a business tie-up between Britain-based Barclays Bank, a commercial bank, and Susu collectors, informal money collectors, where the latter acts as a kind of a go-between between Barclay and its own clients. Namely, the Susu collectors make deposit at Barclays on behalf of their clients, borrow from the Bank by offering the deposit as collateral and lend the borrowed proceeds to their clients. Barclays also subsidized costs for founding credit unions. According to a report, Barclays collected deposits amounting to 5 million pounds in half a year, by mobilizing Susu collectors and credit unions[7].

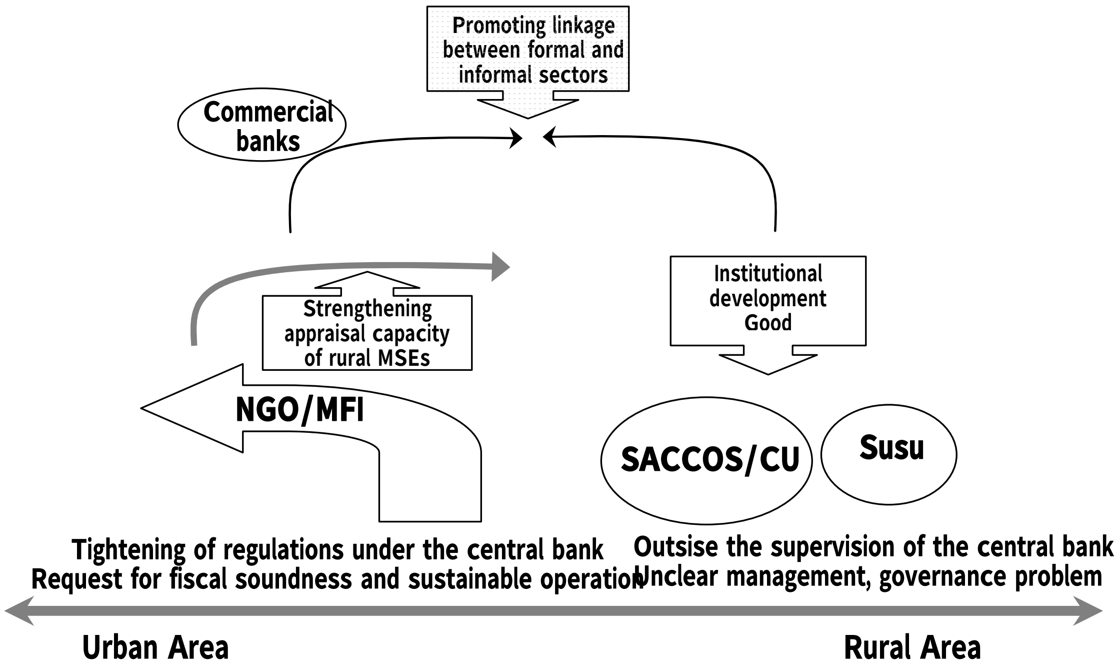
In Senegal before 1995, banks and other financial institutions did not have any connection. Due to the reform led by the BCEAO, commercial banks have expanded their business and made closer linkages with other institutions. At present, 70 percent or more of MFIs have bank accounts. Among them, Caisse Nationale de Credit Agricole du Senegal (CNCAS) has formed

[6] In Uganda, cooperatives in rural areas were active in the 1960's and 1970's. Since then, however, many of them have become dormant because the Government suppressed them during the civil conflict in the 1980's when cooperatives in rural areas allegedly funded anti-government groups.

[7] According to remarks by Ms. Clara Fosu, Business Development Manager, Ghana Microfinance Institutions Network (GHAMFIN), February 27, 2007.

continuous connections with about 40 percent of MFIs in both urban and rural areas. Because of the bank-MFI linkages, urban clients are now able to remit money to their relatives in rural areas. Both formal/semi-formal institutions and informal institutions now recognize mutual commercial benefits of forming close linkages between them, and such recognition helps improve financial services in rural areas.

The Figure below sums up issues described above respecting empowerment of the financial mechanisms for MSE promotion.



Source: the Study Mission

Figure 3-1 Ways to strengthen financial mechanisms for MSE promotion

4. Issues Relating to Promotion of Rural MSE

4.1 Demarcation of Roles of Government and Private Sector

For promotion of African rural MSEs, essential are the private sector's efforts including capacity building to be supported by the government. In consideration of unique properties of government and the private sector, their respective roles should be demarcated properly. The private sector is advised to strengthen industry associations and organize the Chambers of Commerce. Because rural MSEs are so small by definition that each of them could not achieve anything significant by itself. Only by organizing themselves into industry associations or the Chamber, they could act efficiently. For example in Kenya, there are 800 associations formed by Jua Kali (small manufacturers) all over the country. The largest of them has been joined by about 5,000 MSEs. If activated, they would provide a variety of useful services to their members, and communicate with the government on behalf of the members.

What could these organizations do? First, they could conduct lobbying, advocating needs to improve business climate. Because the administration in local areas is fragile, there are mounting deficiencies to be removed for better business management: the law/regulation enforcement is opaque, administrators use wide unpredictable discretion, and mechanisms to solve business disputes are missing. The business organizations are expected to reach consensus among their members on how to rectify these circumstances and request the government to act accordingly. In the medium-long run, such concerted action would lead to improved business climate of the entire country.

Second, such organizations could supply relevant information to the members. In the six countries under study, as exemplified by Kenya's Micro and Small Enterprise Act and the Microfinance Act as well as by Ghana's Microfinance Policy, numerous laws and policies are being drawn up and put into practice. To maximize benefits out of such policy changes or to minimize their adverse effects, if any, the implications of the new laws and policies should be understood correctly. Moreover, the assistance programs of donors addressing MSEs are diverse, depending on donors, governments and NGOs. If these diverse programs are understood correctly, MSEs could persuade the sponsor to directly benefit themselves, while individual firms cannot collect much information by themselves. Services by the associations or Chambers collecting, sorting out, analyzing and furnishing to the members such information would be very useful.

Third, the associations or the Chambers could perform marketing activities. Because the rural market is small, products must be sold to large urban markets for business expansion. As marketing by individual firms has limited impact, the organizations could act more effectively through a variety of means: by publishing product catalogues, opening a website, participating in trade fairs and sending and receiving trade missions.

Fourth, the organizations could help the members establish SACCOS, credit unions and the like. Members of some of Kenya's Jua Kali Associations founded saving & credit associations to improve their access to financing. In many areas, informal organizations like rotating saving & credit associations (ROSCAS) have been formed for mutual help. If such informal organizations are converted into formal cooperatives, more convenient financial services will be provided to local firms in a larger scale. For such purposes, industry associations and the like can play an important role.

On the other hand, the government is expected to provide the following supporting measures. First, the government could help enterprises form industry associations and the like. Generally speaking, in areas where industrial/commercial activities are vigorous and interaction among firms is active, these organizations are readily founded. However, in remote rural areas where such activities are nearly missing, such organizations are rare or small even if they exist. Some of Kenya's Jua Kali Associations are very small with only about 25 members. In order to facilitate formation of an industry association or the Chamber, the government's program with a component to hire consultants for know-how transfer and technical support would be essential. During the initial phase, government's financial aid may also be desirable. Unless an enterprise recognizes merits of joining the organization, it will naturally hesitate to join it and pay the membership fees. Until the organization begins to run on the right track, the government is advised to provide financial assistance covering office maintenance, personnel, office equipment and the like for a limited period.

Second, the government can train staff of the organization. The organization must render useful services efficiently and speedily in order to encourage local firms to join it. Generally speaking in rural areas, any organization finds it difficult to hire capable staff who has high proficiency in sorting and analyzing business information and provides services in marketing and financing. Consequently, a training program aiming to empower organization's staff is highly valued. Though situations may vary among countries, to train staff living in rural areas for serving local firms seems more desirable for the sake of cost-saving and sustainability than to recruit staff in cities and then send him/her to rural areas.

4.2 Small Size of Rural Market and Limited Demand

In rural Africa where the population is sparse and the market is small, the MSE could not grow larger if the local market is solely targeted. At present, many local firms make similar goods using locally available materials. Because transportation infrastructure and services are not well developed and shipping to distant markets in cities and other places outside the producers' own community is therefore costly, products are mainly sold locally. As the local market is small, the demand is promptly satisfied and suppliers must compete for a very small pie and cannot increase their outputs. They need to supply to larger markets in cities or other parts of rural areas. To this end, an urgent requirement is to cut transportation costs. Construction of access roads from rural areas to trunk roads is necessary so that trucks and other vehicles can enter the community. If trucks carry products, products can be sent in a large lot to urban large markets at low shipping costs. If shipping to urban areas is nevertheless difficult for some other reasons, a sensible step is to set up a shop on a nearby trunk road to sell products to drivers and bus passengers on the way. To learn from similar experiences, road-stations located in many places in Japan may be a useful precedence[8]. Another useful step is to make goods with value added contents high enough to offset high shipping costs and to acquire competitiveness. To this end, marketing activities should be stepped up. As an individual rural MSE could not take these steps by itself, the association or the Chamber should use their initiatives.

4.3 Relationship between Technical Assistance and Financial Assistance

Another issue relating to MSE support is how to combine the technical assistance like the BDS with financial assistance like support of the micro finance. The combination of these two means is labeled "the integrated approach", the separation of one from the other is termed "the minimalist approach".

Generally speaking, the MSE lacks basic managerial know-how and needs improvement in skills/technologies. Lending a small amount of money through the MFI by itself would lead to neither the scale expansion nor strengthened competitiveness. This is the reason why the integrated approach is advocated. In some cases, the financial assistance is provided as a component of or a means to achieve the objective of a technical assistance program.

On the other hand, according to advocates of the minimalist approach, the MFI should provide only financial help. The technical assistance is confined to basic skill provision like book-keeping, while full-fledged BDS like technical guidance or managerial advice is not provided. The minimalist is of the view that BDS should be made available by other donors like BDS providers, NGOs, consultants or the government agencies.

By nature, the micro finance requires more man-hours and personnel costs than commercial bank's loan which is usually in a large amount. Should the MFI provide the BDS in combination with lending in a small amount, the cost would be so prohibitive that the micro finance business would be jeopardized. Consequently, it is often considered that the MFI should specialize in financing, expecting the BDS will be funded by others.

As the poverty in rural areas is very serious, long-run and continuous policy implementation is indispensable. Though the integrated approach may sound reasonable, it could blur MFI's cost control system and jeopardize its continued service. In fact, a number of NGOs and donors used

[8] http://www.mlit.go.jp/road/station/road-station_out1.html

the integrated approach for their projects in the past, but, in many cases, on termination of the projects, the micro finance had to be terminated as well. Without access to the micro finance, rural MSEs would have no other choice but rely again on moneylenders in the informal sector. Without continuity, the micro finance would be useless. K-Rep Bank in Kenya, a leading MFI, regards the minimalist approach as an internationally accepted common sense. Grameen Bank, modeled by K-Rep Bank, does not provide anything beyond absolutely necessary BDS. In consideration of the problems of the integrated approach, many MFIs seem to adapt the minimalist approach.

4.4 Balance between Ensuring MFI's Continuity and Expanding Its Outreach in Rural Areas

Another delicate issue is how to maintain a proper balance between needs to ensure financial institution's sustainability/soundness and needs to expand its outreach in rural areas. Because the population density in Africa is lower than in Asia as shown in Table 4-1, financial services in rural areas is impeded by high costs. For example in Senegal, 40 percent of MFIs are based in cities like Dakar and Thies, while they are rarely found in rural Regions like Diourbel, Fatick, Kolda, Matam and Tabacounda.

Table 4-1 Comparison of Population Density between Africa and Asia, etc.

Country	Population Density (persons/km2), 1999
Uganda	114.19
Ghana	82.11
Senegal	52.35
Kenya	50.61
Madagascar	25.58
Zambia	13.05
Bangladesh (Grameen Bank)	994.28
Malawi (one-village-one product)	106.3
Japan	336.72
USA	29.77

Source: http://www.photius.com/wfb1999/rankings/population_density_0.html

Grameen Bank's staff, who is trying to disseminate his Bank's model in Zambia as UNDP's project officer, states to the following effect:

The micro finance is not functioning in Zambia as well as in Bangladesh though the both are poor, because Zambia's population density is low, and because the Zambians, poorer than the people in Bangladesh, have lower purchasing power and have very limited access to finance. Most of them sell unprocessed food or have other jobs to earn their living. Because of high transaction costs, very few MFIs target rural areas. On the other hand, because Zambian women have stronger decision making power than women in Bangladesh, they would potentially drive dissemination of the micro finance like Grameen Bank[9].

Meanwhile, according to Ghana's GTZ, the balance between the outreach of the micro finance in rural areas and its sustainability could be maintained by developing new technology. Examples cited by GTZ are use of ICT like reduction of transaction costs in remote areas by means of remittance with a portable phone, and Uganda's gasoline filling stations acting as bank's agents using computer peripheral equipment developed by Hewlett Packard.

9 UNDP Zambia, "Project Brief United Nations Development Program: Microfinance for Poverty Reduction"

Box 1 exhibits examples being tried in various parts of the world in an attempt to cut transaction costs and risk arising from financial service provision to the rural poor.

BOX1 Attempts to Reduce Transaction Costs and Risks
Associated with Extending Financial Services to the Rural Poor

While the rural Poor's demand for accessing to various financial services is high, the transaction costs to extend services to remote and sparsely populated rural areas is high as well. Followings are attempts made in various parts of the world to reduce such transaction costs and risks.

(1) Increase the Numbers of Outposts in Report Areas
ASA, one of the giant MFI in Bangladesh whose population density is high, established 1,200 outposts in remote locations so that hard-core poor households can access its financial products and services more easily.

(2) Village Banks
The Caisses Villageoises d'Epargne et de Credit Autogérées (CVECAs) in Mali serves a low income, sparsely populated region where the illiteracy rate exceeds 95 percent by providing financial services such as short-term loans, passbook accounts, and time deposits. Nearly 10 percent of the region's adults are active members, with an average of 231 per bank. More than two-thirds of the accounts have balances of less than US$50. CVECAs is able to operate at low cost by utilizing local labor and resources, volunteers, part-time staff whose salaries are based on profits. CVECAS provides a limited number of products and the record keeping is simple.

(3) Piggybacking
Piggybacking is to provide financial services at points where clients from rural and remote areas regularly travel to obtain non-financial services. Offering financial services at a time and place where clients are already transacting other business such as selling agricultural products or purchasing consumer goods can lower their transaction costs. CRDB, a Tanzanian private commercial bank which is engaged in microfinance as well, set up a branch office besides an assembly places for cereals along side a trunk road to the Capital city, and provides savings and credit services to SACCOS members who utilize the place for selling their products.

(4) Mobile Banks: Use of High Technology
There are two types of mobile banks, providing banking services from movable vehicles and using part-time, partial service locations and agents. Vietnam Bank for Agriculture and Rural Development (VBARD) operates a network of 330 mobile banks with support from the World Bank. The interest rates and fees charged by these mobile banks tend to cover costs. Transaction costs for clients are also kept low since savings are collected at the savers doorstep. In the case of the Equity Building Society (EBS) in Kenya, mobile banks use Global System for Mobile Communications (GSM) technology to process transaction data on-line and provide rural clients with a greater range of services. Solar units, rechargeable batteries, and inverters provide uninterrupted power to laptops. As of July 2003, about 10,000 clients were served by 28 mobile units connected to seven branches and three of the seven branches were profitable. The mobile loan officers of Constanta, a leading MFI in Georgia, travel between service points set up in rented rooms in local bank branches in order to provide services in thinly populated rural areas. They coordinate with nearby Constanta area offices to lower the costs of operating in rural. The successful use of mobile banks depends on the status of security; law and order in rural areas; the availability of good roads for transport; and regulatory issues regarding the collection of savings.

(5) Electronic Banking
Electronic banking involves the use of several types of information technology to deliver financial services through personal digital assistants (PDAs), automated teller machines (ATMs), debit and credit cards, point of Sale (PoS) devices, and cell phones. Information technology companies are entering the electronic banking industry such as cell phone companies' entering in the remittance markets. The Hewlett-Packard Company is now considering the RTS, which combines technology and business processes to enable cash deposits and withdrawals by MFI clients through a network of loan officers, rural branches, and/or agents. In August 2003, it spawned a public-private consortium of microfinance leaders, technology specialists, and business thinkers who are now testing a Remote Transaction System (RTS) in Uganda.

(6) Improvement of the Use of Information Technology
・ To reduce costs of using information technology, it is important to bundle financial services into the physical infrastructure and to widen the client base through strategic partnerships with service providers.
・ Credit scoring can be efficient in reducing information costs for financial institutions only when credit bureaus are capable of providing reliable historical data on clients.

Source: Geetha Nagarajan and Richard L. Meyer, "Rural Finance: Recent Advance and Emerging Lessons, Debates and Opportunities", June, 2005, p.p 39-53. "Piggy backing" being tried by Tanzanian CRDB was added by the Study Mission.

Box 2 Linkages between financial service and technical guidance in each step of value chains

As opposed to densely populated Asia, rural Africa is sparsely populated and residential communities are geographically isolated. Consequently, local markets are small and industrial agglomeration is hindered. Under such circumstances, the assistance program should reflect the following two viewpoints relating to a future course of economic growth (see Figure 4-1):

(1) Build Channels for Interaction outside the Rural Community

The assistance program should facilitate building of channels for sale of community-produced crops, processed crops and consumer goods. For this purpose, at each step of the value chain consisting of production/processing, distribution and sale, suitable technical assistance should be provided in combination with financial services in collaboration with commercial banks, MFIs, local merchants, transporters and processors, that are knowledgeable in local conditions. In case of crops, collaborative production should be avoided as a matter of principle, but each farmer should produce crops for sale to merchants and get revenues corresponding to his/her outputs. The assistance may well focus on a few crops, and cover every step from production to sale.

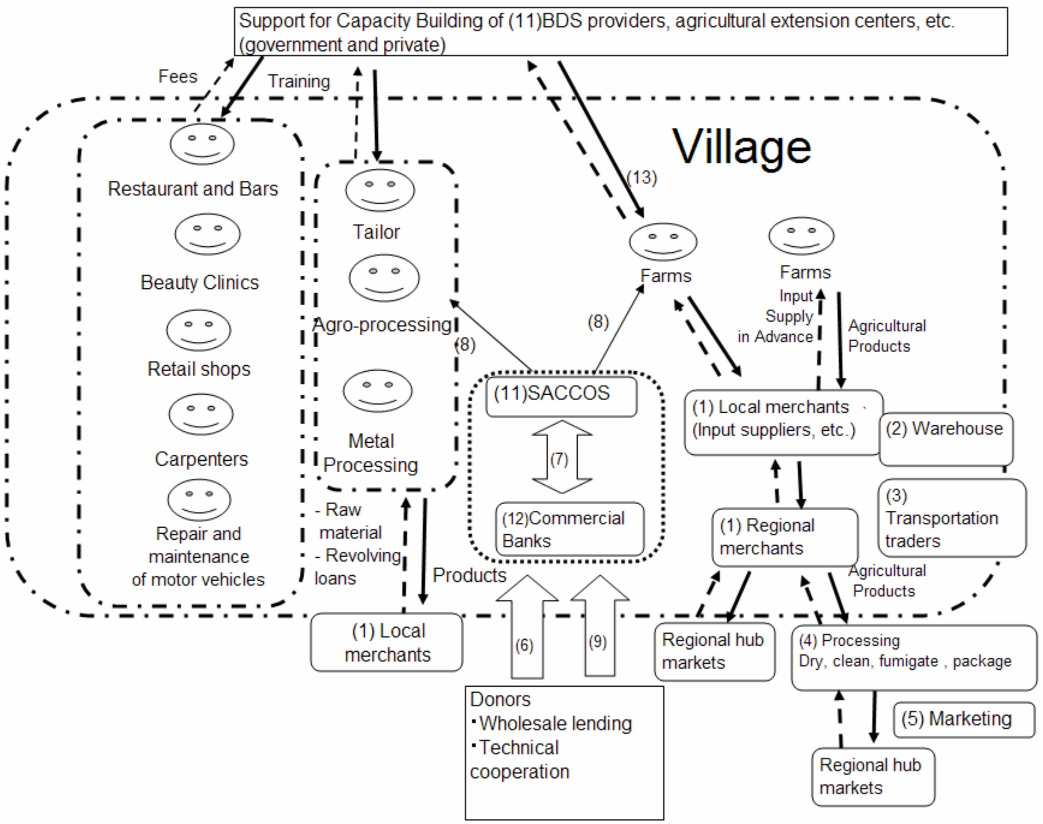
In combination with technical assistance to producers, financial services accessible by producers should also be provided. Specifically, local financial service providers should be trained in development of financial products in line with local MSE's needs and in ways to upgrade abilities to appraise and analyze borrowers' creditworthiness. In addition, partners at every step of the value chain should be empowered. For instance, crop producers should be educated, with a view to facilitating their fund-raising, in better methods of storing raw materials and in a new method of fund-raising called "warehouse receipt loans", in a package with support for improving their production technologies. Another way could be to encourage transporters without proper means of transportation to use new financing instruments like leasing of trucks.

(2) Increasing Production and Value Added of Industries Strongly Demanded in the Rural Community

For firms targeting consumers in their rural community, technical assistance like vocational training and BDS should be provided to increase value added and earnings. The firms should also be trained in basic book-keeping including ways to separate household accounting from business accounting. Support is also needed so that rural businesses including millers and bakeries will enjoy better access to capital needed for proper equipment investment in response to growing local demand.

In conjunction with cooperation targeting a series of processes in rural areas ranging from production to sale, the macro-economic climate should also be improved to facilitate MSE's activities. Specifically, cooperation may well cover formulation of the following policy means:

(a) Human resources development such as vocational training including training of service providers, and improvement of BDS contents on the micro level.
(b) Regulation/monitoring/supervision of MFIs.
(c) Ways to reflect private sector's voices on government's policy making through formation and fostering of associations of MFIs and industries.
(d) Improvement of the legal frameworks such as the land law, commercial code, business registration system, system to facilitate offering of movable assets as collateral and dispute resolution system.



Linkages Between Financial and Technical Cooperation along the Value Chain

1. Enhancement of Financial Services
(1) Input Suppliers
(2) Post Harvest
(3) Transportation Traders
(4) Processing
(5) Marketing

2. Cooperation for Institutional Building
(6) Wholesale lending to commercial banks which lend to financial service providers in rural areas.
(7) Strengthening linkages between commercial banks and SACCOS through formulating manuals for credit screening.
(8) Encouraging savings.
(9) Development of financial products.
- Innovative financial service providing systems
- Support development of financial products in rural areas (pilot projects).
- Partial guarantee to commercial banks.
- Support development of financial products which meet with borrowers' needs through narrowing the gap between borrowers' needs and commercial banks' requests.

3. Capacity Building of Various Actors
(10) Strengthening capacities of BDS providers and improving productivities.
(11) Support the formulation of business associations including MFI.
(12) Short term training for commercial banks which provide services to MSE to encourage MSE lending.
(13) Improve the quality of BDS contents at micro level such as helping MSE to obtain ISO.

4. Macro Level Environment
- Improvement of commercial laws, conflict resolution, etc.
–Improvement of registering land title and enterprises.

Source: the Study Mission

Figure 4-1 Linkages between financial services and technical guidance at each step of value chain

4.5 Empowering Financial Service Providers: Raising Ability to Find New Borrowers in Rural Areas

Due to declining yields of government bonds, the financial institution now needs to seriously look for alternative ways to invest its funds deposited by rural clients. Consequently, its ability to appraise MSE's credibility must be strengthened. For instance, Ghana's Rural Bank used to buy government's bonds, which occupied a large portion of its portfolio. Due to lower yields of the bonds, however, it is looking for alternative ways of investment in rural areas.

Meanwhile, in the case of Kenya's K-Rep Bank, a large MFI, MSEs hiring at most 5 persons represent 50 percent of its borrowers and lending to them account for 55 percent of its portfolio. The Bank, however, does not deem it hard to find borrowers. Experienced in the micro finance business in neighboring countries as well, K-Rep Bank is able to judge prospects of borrowers' businesses. An executive of the Bank says, "We do not think there are few business chances in rural areas. To the contrary, because of less competition, business chances are more abundant in rural areas than in cities. In a village with 100,000 population, only one company makes a particular product, and there are other villages with similar situations[10]." K-Rep Bank's predecessor was founded as NGO in 1984 under the five-year program named "the Kenyan Rural Enterprise Programme" in response to MSE's financial, managerial and technical needs, and has subsequently been reorganized into a bank. For more than two decades, the Bank, as an MFI, has supported rural MSEs, and, on the basis of such experience, has acquired ability and established systems to appraise and finance rural businesses[11]. As the Bank attempts to help MSEs build capacity, its lending to small firms and consumers amounts to 49 percent of its portfolio. In addition, through K-Rep Advisory Services, its group company, the Bank conducts the following technical assistance programs: organizational capacity development and fostering; customer surveys; market research on new products/services before design/implementation of a program; client support by experienced managers; and MSE-supporting services consisting of business operations and plan making based on feasibility studies and establishment of internal control/reporting systems. Advisory services are also provided concerning technology, market, tax payment, economic evaluation, risk analysis, competitiveness and law.

4.6 Government's Support and Market Mechanisms

The poverty in Africa is not a local problem but a long-run problem with extensive effects. As any temporary assistance would be ineffective, the problem must be addressed from medium-long run perspectives and with continuity. In order for the micro finance to be sustainable, it should be based on market mechanisms. If the government sets legal ceilings on interest rates at very low levels, the MFI could not recover its cost even with cross-subsidization from revenues of other businesses and deposits, and the business eventually would become unviable. If the MFI collapses, local inhabitants would have no choice other than to rely again on the informal facilities like rotating saving & credit associations or moneylenders charging high interest rates and would be subject to instability. Without sustainability, the micro finance would have no use. On this account, even if the government subsidy should be available, the MFI should follow the market mechanisms. Any micro finance charging subsidized low interest rates would not only be unsustainable but have adverse effects on the local community. For instance, information on availability of heavily subsidized loan may be communicated only to such firms that have strong political influence, and genuinely needing MSEs may not benefit at all. Subsidized loan may even widen the income gap in the community arising from difference in political influence. Furthermore, the MFI may no longer be motivated to mobilize savings in

[10] Based on an interview with Mr. Kimanthi Mutua, Managing Director, K-Rep Bank.
[11] http:/www.k-rep.org/advisory.asp#advisory1

the community. In rural Africa, because demand for depositing opportunities is strong, safe and convenient deposit-taking service needs to be expanded in a way to stabilize people's living. By meeting such demand and mobilizing deposited proceeds for lending, the micro finance business will become sustainable and superior. Financing neglecting the market mechanisms would stand in the way of the establishment of a virtuous circle of saving and lending.

BOX 3 Savings Habits in Rural Uganda

1.Current Rural Savings Methods
80% of rural Ugandans save in cash or in kind. Most rural Ugandans save in both formal and non-formal organizations. There is much more saving in cash and in kind than there is organized saving. There are clear seasonal trends mirroring the agricultural seasons for saving. The most common reasons for saving are planning for medical emergencies, school fees and unforeseen problems.

2. Potential Capacity of Savings
80% of rural Ugandans have an income generating activity. The dominant activities were farming, livestock rearing and wholesale/retail trade, in that order. Significant expenses for rural Ugandans were transport, medical care, food, school fees and rents, in that order. Monthly income was variable but the majority of respondents tended to be either less than Ush 50,000 or between 50,001 and 200,000 Ush. Monthly expenditures tended to be less than 100,000 Ush. Most respondents earned income either daily or monthly and most respondents had daily expenses.

3. Rural Savers' Challenges and Priorities,
81% of respondents stated that low income as the greatest challenge to saving. Beyond this, other significant impediments were high fees, high minimum deposits and lack of personal interest in saving. Most respondents prefer making monthly or quarterly withdrawals while weekly or monthly deposits were preferred. Preferred time spent and distance traveled to save was less than 30 minutes and up to a kilometer, respectively, for the majority.

4. Conclusions
・ Linking formal and non-formal organizations to mobilize smaller deposits.
・ Targeting male clients (revealed to be good savers).
・ Promoting savings.
・ Raising awareness of savers.

Source: USAID Uganda, Savings Habits, Needs and Priorities in Rural Uganda, September 2005. The report was made based on a survey covering 852 respondents throughout the country.

4.7 Assistance on Micro, Mezo and Macro Levels

Providing individual MFIs with funds for lending would not be enough to improve poor people's access to financial services in a suitable manner. For this reason recently, the micro finance has been given its significance in the context of an overall financial framework, where lending to the poor is incorporated in each of the micro, mezzo and macro level, and supported accordingly. The micro, mezzo and macro levels are defined as follows[12].

Micro level: Consists of financial service providers that directly target the poor. Includes a wide variety of businesses such as the informal moneylender, saving club and commercial bank.

Mezzo level: Consists of a wide variety of services designed to provide basic financial infrastructure, cut transaction costs, expand outreach, enhance abilities and increase transparency of the providers. Includes a wide rage of players such as the auditor, credit-rating institution, specialized network, industry association, credit reference institution, remittance/payment system and provision of information on technology and other kinds of technical services. Being active across the national border, they may be regional or global players.

[12] Bright Helms, "Access for All: Building Inclusive Financial Systems", Consultative Group to Assist the Poor (CGAP), 2006, p.14.

Macro level: Consists of legal/policy frameworks designed to ensure sustainable and prosperous micro finance business. Includes the Central Bank, Ministry of Finance and other relevant Ministries/Agencies.

For example, Ghana's SPEED Project aided by the GTZ/DANIDA focuses on the mezzo and macro levels, providing MFIs with technical assistance, consisting of organizational diagnosing, organizational management, asset management, management information systems (MIS) and others. Besides them, steps are being taken to empower MFIs' associations in supervising their members, found institutions to rate MFIs' financial status, build credit-reference systems, facilitate participation in a policy dialogue initiated by the Ministry of Finance. Likewise in Uganda, the GTZ/SIDA-sponsored Financial System Development Programme focuses on empowerment of a credit reference system on the mezzo level and policy making on the macro level.

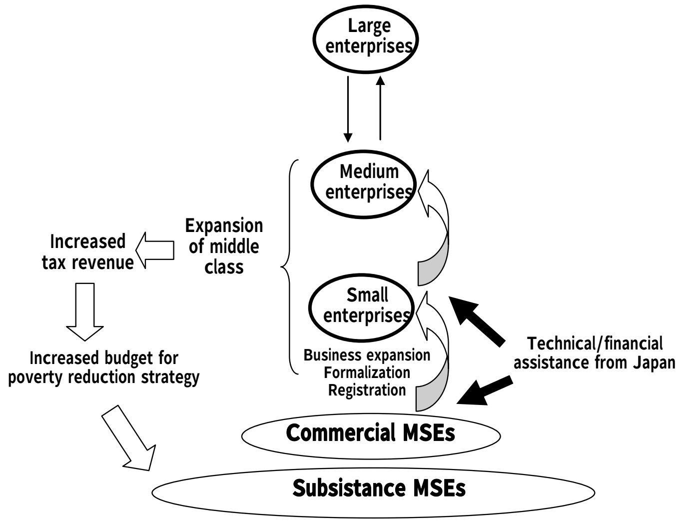
Under the present circumstances where diverse local institutions such as NGOs, saving & credit associations and village banks are engaged in the micro finance business and even commercial banks have begun to be interested in it, the support on the mezzo or macro levels have become more important than that on the micro level.

5 How Japan Should Help Africa?

In Sub-Sahara Africa, about a half of the populations live below the poverty line. Because 70 to 80 percent of the populations live in rural areas, the strategically most essential task for poverty reduction is to make them economically more active and raise their earnings. In rural Africa, the natural conditions are harsh, political unrests are prevalent and infrastructure is under-developed. Because the population density is lower than in Asia, the local market is small but, due to poor transportation infrastructure, access to markets in cities and other areas is limited. In brief, pre-requisites for activation of the economy are not satisfied. The poverty reduction in rural Africa therefore is an extremely challenging task. Implementation of ad hoc pilot projects in a small area aiming at immediate visible effects would not generate substantial benefits. The task should be addressed from the medium-long run viewpoints aiming at sustainable growth. This section explores how the Japanese assistance program should address the poverty in rural Africa. The section begins with presentation of a scenario where MSE promotion is expected to lead to the poverty reduction, and then makes concrete proposals as to what Japan should do.

5.1 Poverty Reducing Scenario by Means of MSE Promotion

Figure 5-1 presents the proposed scenario where the poverty reduction through economic growth will be attained in rural Africa as well as the roles to be played by the Japanese technological/financial assistance in this context. For the reduction of rural poverty in the medium/long run perspective, of the utmost importance is to expand the middle class. At present, the situation is symbolized by the phrase, "the Missing Middle": namely, the industrial structure is skewed in such a way that there is a dichotomy consisting of a small number of large firms and numerous MSEs. Missing are small firms which had grown out of micro firms and medium firms capable of performing sub-contracts with large firms. In the experience in Asia, the expanded middle class increases domestic consumptions and activates the economy. The economic boom leads to increased tax revenues, which can be spent on poverty reduction strategies. In this manner, the country will become less dependent on foreign aids and will carry out poverty reduction policies continuously and viably. To expand the middle class, more efforts should be made to promote small/medium enterprises, which are to fill the gap of the Missing Middle. For this purpose, the assistance on the micro level may be useful as such assistance gives direct impact on enterprises. At the same time, however, the assistance programs on the mezzo and macro levels are also effective as they are expected to improve overall business climate. The argument presented above will be substantiated below.

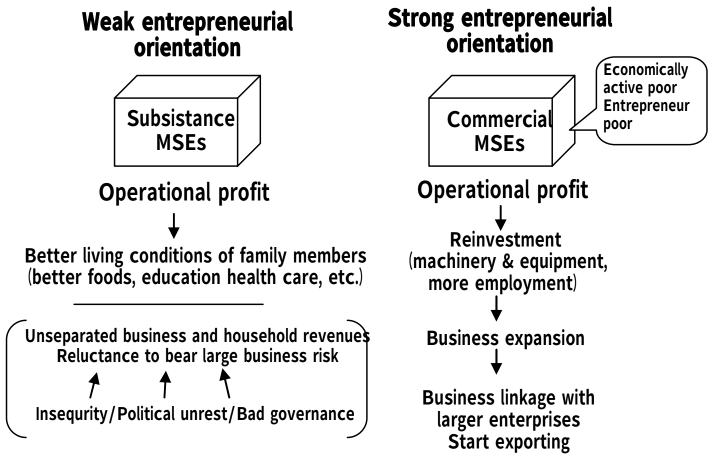


Source: the Study Mission

Figure 5-1 Scenario of poverty reduction through MSE promotion

5.2 Focusing Target of Support

As was already stated, MSE's in rural Africa are divided into the Subsistence MSE and the Commercial MSE. (Please see Figure 5-1.) As the objective of the former MSE is to raise family's living standards, revenues are spent on social services and rarely re-invested in business expansion. The latter MSE is willing to grow possibly into a small enterprise, given access to markets, technology and capital.



Source: the Study Mission

Figure 5-2 Target of MSE promotion policy

Given unfavorable circumstances in rural Africa such as harsh natural conditions, political unrests and risk of HIV/AIDs, a logical choice is to start an MSE in an attempt to maintain/raise living conditions. In the case of micro-scale family business, business accounting and household accounting are often mixed so that failure in business immediately affects families' living adversely. It may therefore be a reasonable choice in a sense to avoid taking risk inherent to business expansion. Also, there is an incentive to keep the firm size at a micro level, since a larger, registered firm is subject to a variety of harassment by regulating officers like a request for bribery. Therefore, the very poor people in rural areas are more likely to choose to start a Subsistence MSE. If the reduction of poverty is the highest priority in policy making, the policy should continuously focus on the Subsistence MSE until the very poor in rural areas become wealthy enough to maintain at least the minimum living standards.

On the other hand, if the policy goal is to reduce poverty through economic growth from a medium/long perspective, the appropriate policy is to target the Commercial MSE. As symbolized in the phrase, the Missing Middle, the enterprise structure of the six countries under study is so skewed that it is polarized by a small number of large firms and numerous MSEs in the absence of medium-scale firms, which normally form the middle class. Should the Commercial MSE grow into a small or medium enterprises, the economy would become vigorous and continue to grow. Should such a firm register and pay taxes, the government's revenues would increase and cover expenditures for straightforward poverty reduction without relying on foreign aids.

In Sub-Sahara Africa, where more than 40 percent of the populations live below the poverty line, the problem of poverty is too serious to be solved with ad hoc means. From a humanistic viewpoint, the policy should focus on the Subsistence MSE, which is inflicted with serious economic damage. However, for the purpose of economic development as a vehicle for poverty reduction, the Commercial MSE should be targeted with a view to bringing up the middle class.

It is not easy to distinguish in rural area the Subsistence MSE from the Commercial MSE. In the case of some projects, screening is made in advance in the light of objective indicators including profitability in the past two years[13]. This method, however, can be used only if the enterprise in question has registered and has produced financial reports. If not, such firms are not eligible for the assistance, though even an unregistered informal enterprise may be potentially hopeful. Therefore, it may be advisable to target a relatively large number of firms initially and gradually pick up a small number of firms in consideration of their responses to the assistance and initial performance. In this case, an advisable option may be to hire NGOs or MFIs knowledgeable in local business conditions as partners.

5.3 Improvement of Economic Infrastructure

Certainly, a most important policy for promotion of MSEs in rural Africa is to improve economic infrastructure. In sparsely populated rural Africa, transportation infrastructure like roads and bridges is inadequate and therefore communities are isolated. Because access to both large urban markets as well as to neighboring markets is limited, transportation is costly. As trucks cannot enter the community, the only means is to carry goods to the markets by bicycle riding on bad roads. A bicycle carries only a small lot per each trip and perishable food is rotten on the way. There is no suitable warehouse where crops can be stored. In areas where electric power is not available, even a refrigerator cannot be installed. Such inadequacy of economic infrastructure is a most serious impediment to MSE promotion. Improvement of infrastructure therefore should be given the highest priority.

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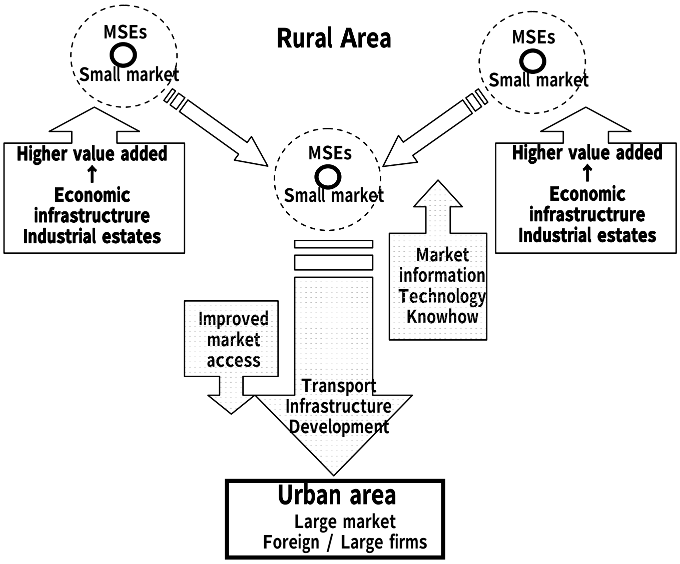
[13] Based on interviews with: Mr. Per Gidionson Frisk, GTZ/DANIDA's Ghana SPEED Project, March 1, 2007 and with Mr. Hans Henrick Madsen, DANIDA's Kenya BSPS Project, February 21 2007.

In Kenya, Ghana and elsewhere, pilot projects are building industrial estates for MSEs in many parts of the country. Though such estates are being built not in rural areas but in local cities, they are beneficial to MSEs, enabling them to acquire business sites and use infrastructure like electric power, water supply and sewerage facilities. For MSEs to locate themselves there, they need to register and pay taxes if they make profits. Construction of industrial estates thus benefits both the government and MSEs, enabling MSEs to use valuable infrastructure and the government to collect taxes. Japan's assistance for such undertaking is worth considering. (Please see Figure 5-3.)



Source: the Study Mission

Figure 5-3 Assistance for expansion of market access by building economic infrastructure

Sub-Saharan Africa has approximately 700,000 kilometers of rural roads, with half of them in poor condition[14]. Road densities per km are generally much lower than those of Asia or Latin America. Low population densities, low levels of income and weak road planning and maintenance capabilities combine to make Sub-Saharan Africa altogether underequipped and overburdened in terms of rural road infrastructure.

Available socio-economic studies indicate that feeder road improvements have a positive impact on rural poverty[15]. The results of a series of 'socio-economic impact monitoring and evaluation studies' on the impact of feeder road improvements are as follows:

- Transport services are significantly more frequent and cheaper in the corridors where feeder roads have been rehabilitated;
- Farmers on improved corridors reduced their use of intermediaries to sell their harvest and received better prices for their crops;

14 John Riverson, Juan Gaviria, and Sydney Thriscutt Rural Roads in Sub-Saharan Africa: Lessons from World Bank Experience 1991 World Bank Technical Paper No. 141 Africa Technical Department Series The World Bank

15 http://www.um.dk/Publikationer/Danida/English/Evaluations/JointEvaluation2000/7_5.asp

- Shopkeepers on improved corridors say their costs and sales have improved since the road was rehabilitated; and
- Summoning an emergency vehicle to take an ill person to a health facility is easier and cheaper where the roads were improved.

According to the study on impact of the road programme on wider economic benefits, poverty alleviation and gender aspects conducted by DANIDA[16], "the relationship between road activities and poverty alleviation is not a direct one. The relationship is in general indirect through variables such as (i) reduced vehicle operating costs, (ii) improved agricultural product marketing, (iii) increase in social mobility and (iv) access to water, hospitals and schools". In other words, road improvement in itself is, however, not sufficient to maximize socio-economic impact. Complementary factors include agricultural credit, finance for transport investments, improved farm technology, processing and storage facilities, as well as the long-term systematic maintenance of feeder roads. This underlines the fact that policies for rural/regional development and poverty alleviation need a co-ordinated planning and implementing by all key involved parties.

In this way, in order to vitalize the rural economy through promotion of rural micro and small enterprises, it is very important to focus on maintaining feeder roads, which connect rural areas with trunk roads. It is necessary to implement both technical and financial cooperation simultaneously for maximizing the effects of (feeder) roads maintenance. It is therefore considered that the Japanese government should be engaged in a comprehensive assistance including infrastructure development, technical and financial cooperation. At the same time, it is also important to design and to consider construction methods, which take into account of the characteristics of feeder roads in Africa.

5.4 MSE Promotion on the Micro level

Targeting rural MSEs, the technical/financial assistance on the micro level can also be effective. Because, depending on location, fruit, fish or livestock is potentially productive. Other donors have actively targeted such products. For instance in Kenya, the DFID sponsors training to teach farmers in standards in the EU for quality, food safety and the like to promote export of processed agricultural products to the EU. The DFID also helps install milk-chilling plants to promote sterilization and processing of raw milk collected from nearby dairy farmers. In Madagascar, an assistance program is being implemented in anticipation of increased consumption by foreign tourists to encourage production of high value added agricultural products and their supply to hotels and restaurants in tourism resorts. Because in spacious rural Africa, only most endowed places can produce crops with an export potential and high value added, such assistance is effective only in selected areas. Export of processed agricultural products, however, has favorable linkage effects on other sectors such as distribution and service. Besides, increased value added economically benefits other industries like traders, machine makers and packaging material makers. In the economy thus activated, the middle class will expand, tax revenues will be up, and the poverty can be reduced nationwide. Japan should also actively provide technical assistance to increase value added and international competitiveness of processed agricultural products in selected areas and selected sectors.

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16 http://www.um.dk/Publikationer/Danida/English/Evaluations/JointEvaluation2000/7_5.asp

Meanwhile, Japan should be cautious as to whether it should assist the micro finance. In the recent decade, many donors assisted MFIs' business expansion in the six studied countries. As a result, NGOs, village banks, saving & credit associations and other MFIs are engaged in micro finance for MSEs. Although MFI's business is in a smaller scale than commercial banks, it will continue to expand. Since under the circumstances where even commercial banks are now interested in the micro finance business due to declining yields of government bonds and considerable amounts of money are hoarded in rural areas, MFIs can mobilize these funds by offering convenient deposit-taking service. In consideration of such situations, Japan's assistance for the micro finance business designed to benefit MSEs directly is eagerly expected.

As the EU and European Investment Bank are implementing in Kenya, Japan could lend a substantial amount to micro finance wholesalers. Other donors' lending in similar cases seems equivalent to a few hundred million yen.

5.5 Industrial Promotion on the Mezzo Level and Support to Strengthen Financial Mechanisms

Unsatisfactory governance such as cumbersome administrative procedures and harassment by field officers also impedes MSE's expansion. In the context of private sector development, the improvement of business climate surrounding MSEs is important. Keenly interested in this kind of assistance, the World Bank and European donors have started a number of projects. In Asia, the Japanese ODA institution by itself can advise the host government to put into practice necessary reforms, in collaboration with local subsidiaries of Japanese companies, the Japan Chamber of Commerce located in Asia and the JETRO, incorporating concrete and proper inputs made by Japanese business persons staying there[17]. In Africa, it is highly necessary for the Japanese donor agency to collect and analyze relevant information sufficient to come up with concrete practical advice to be presented to the host government.

The same argument applies to the financial mechanism improvement. Compared with other donors, the Japanese banking sector is not experienced in the micro finance business. There are mounting tasks such as empowerment of MFIs' industry associations, establishment of a monitoring scheme and raising MFI's ability to find new borrowers. Japan is not required to cope with all of these mounting tasks at the same time, but concentrates on specific issues, which the country would best utilize its advantages. For this purpose, it is highly needed to pay sufficient respect to existing frameworks of support established by the recipient government and other donors.

In the light of the above argument, should the Japanese donor provide assistance for industry promotion or strengthening of financial mechanisms on the mezzo level, the wisest way would be to collaborate with experienced other donors on the basis of the supporting frameworks built by them. In fact in Kenya, the DFID and the DANIDA are collaborating each other, so are the GTZ and the SIDA in Uganda as well as the GTZ and the DANIDA in Ghana, both for their financial and technical assistance programs. Among international organizations as well, collaboration is being made between the IDA and the IFC within the World Bank Group and between the UNDP and the UNCDF within the UN Group. Through similar collaboration, Japan may find out a niche field where it can use its comparative advantage. Such option appears the most efficient and effective approach.

5.6 Ways to Conduct "One-Village-One Product" Campaign

[17] An example of such policy-improving assistance is "the Japan-Vietnam Joint Initiative to Improve Business Environment with a View to Strengthen Vietnam's Competitiveness" started in 2003 on the basis of government-private collaboration.

The One-Village-One-Product Campaign initiated in Ohita Prefecture in 1979 has become the symbol of Japan's local economic development efforts and spread all over the world. In Thailand, introduced as the OTOP (One Tambon One Product) Campaign, it is designed to put out an area-specific product with good quality to be sold in and outside the country based on the local resources and local culture. We find another successful case of this Campaign in Africa. Malawi, in particular, introduced this Campaign in 2003, and a variety of area-specific products have been developed with technical support from JICA. Many of these products become widely available at urban markets. The expansion of agro-processing work is expected to increase the revenue of local farmers, who provide raw materials. The background of the success of this Campaign is self-initiative of village inhabitants toward local economic development efforts[18]. The Campaign should be most successful, where local inhabitants have a greater independence and creativity to realize objectives of the Campaign, by even mobilizing their own resources.

As a matter of principle, the campaign should be initiated in the context of rural development by village inhabitants in a bottom-up manner. This principle, however, has not been fully understood and has been superseded and diluted by the slogan. For example, according to the Study Mission's field investigation, the campaign has been led by the government with adverse effects. Farmers' opinions have been seldom heard as the government has picked up a product for each village in a top-down manner and requested farmers to produce it. For example, the government requested farmers to process mangos and installed mango-processing equipment. Without bottom-up participation by village inhabitants, the Campaign is nothing more than physical production of a government-specified product.

The Campaign, which has been reasonably successful in Japan, Thailand and elsewhere in Asia, cannot be readily copied in Africa. During the field trip, the Study Mission asked government officials, donors, MFIs and other informed parties for opinions on the Campaign. Many interviewees pointed out it difficult for Africans to produce something collectively. Africans are prepared to cooperate in social welfare activities for a common goal, but for business or production they have a habit of acting separately. KWFI, a Kenyan MFI, once encouraged grouping by ceramics producers in a village and made credit to the group. However, as the division of responsibility and each member's repayment liability became obscured, the undertaking failed[19]. A similar case was heard from DFID's Kenya office[20]. Though a hasty conclusion should not be drawn out of a few observations, the nature of the community and its relationship with its members seem different between Africa and Asia. In waging this Campaign, a caution should be used in this difference.

Another warning respecting this Campaign concerns marketing. Though attempts are being made to process and sell community-specific products, many villages tend to make the same products. Africa's local markets are so small that demand is promptly satisfied. For shipping to large distant markets, transportation facilities must be developed to cut shipping costs, or high value added products matching tastes of urban consumers must be supplied with sophisticated processing techniques, better packaging materials and attractive design. For this purpose, merely supporting in use of production techniques is not enough but a comprehensive assistance framework, including financial assistance for each step of activities, should be formulated, covering, among other things, marketing, transportation and access to capital[21].

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[18] p9, Monthly JICA, February 2007.

[19] Based on an interview with Mr. Githaiga, general Manager, KWFT, on February 21, 2007.

[20] Based on an interview with Ms. Muteshi, Senior Programme Officer, DFID Kenya, on February 20, 2007.

[21] The approaches introduced in Box 2 titled "Linkages between financial service and technical guidance in each step of value chains" are example of such comprehensive assistance.

Ⅱ. Country Profile

Chapter1 Kenya[1]

1.1 Status of Micro and Small Enterprises

In the light of failure of import-substituting industrialization led by state enterprises starting in the 1970's as well as of downsizing of the Government during the implementation of the structural adjustment program initiated in the 1980's, the private sector is now expected to play a larger role in economic development. In 2005, however, GDP grew only 2.8 percent, only slightly above the population increase at 2.3 percent in the same year. As globalization is making headway worldwide, and international competition in trade and investment is becoming tougher, Kenya needs to activate its private sector.

Size Distribution of Enterprises

Kenya's private sector is characterized as dichotomy, in that there are a small proportion of large enterprises on the one hand and a large proportion of micro and small enterprises (referred to as "MSE") on the other[2]. Large enterprises are mostly subsidiaries of multinational corporations, lobbying the government for appropriate measures favorable to their economic interest. According to the survey of the Central Statistical Bureau cited by the Ministry of Trade & Industry, there are 1,000 large enterprises and 3,500 medium-sized enterprises. On the other hand, the majority of MSEs are capitalized indigenously without registration, and belong to the informal sector. The survey mentioned above reports that there are more than 1.6 million such MSEs, and that large enterprises, medium-sized enterprises and MSEs account for 30 percent, 30 percent and 20 percent of GDP respectively, indicating how each MSE is small[3] . (Please see the table below.) Most of MSEs are run by self-employed owners, who choose not to register and belong to the informal sector to avoid tax and social security payments. MSEs are reported to employ about two-thirds of non-farm workers[4].

Table1-1 Size distribution of enterprises (estimated)

Size of Firm	Number of Firms	Contribution to GDP (%)
Large	1,000	30
Medium	34,000	30
MSE	1,679,858	20
Total	1,735,000	80

Source: CBS, "National Baseline Survey of Micro & Small Enterprises 1999" quoted by the Ministry of Trade & Industry in "Private Sector Development Strategy 2006-2010".

Regional Distribution of Enterprises

Regarding the regional distribution of enterprises, clear difference is observed between large/medium enterprises and MSEs: 56 percent of the former are concentrated in Nairobi, the Capital, and many of them are located in coastal cities like Nairobi or in other cities. Only a small number of them are in rural areas. On the other hand, 70 percent of MSEs are in rural areas. Including those in rural towns, 76 percent of them are found in rural regions. Though some of them are in large cities like Nairobi and Mombasa, only 13 percent are in these two cities. Undoubtedly, MSE's activities are concentrated in rural areas.

[1] Currency unit of Kenya is Kenya Shillings (Ksh/KES), KES1=¥1.728.
[2] According to the Department of MSE Development Ministry of Labour and Human Resource Development, size of enterprises are devided into 3 categories by the number of employees, micro (1~9), small (10~49) and medium (over50).
[3] While large/medium enterprises and MSEs combined produce 80 percent of GDP, the remaining 20 percent is generated by state enterprises.
[4] The Ministry of Trade & Industry, Republic of Kenya,"Private Sector Development Strategy 2006-2010", p.9.

Table1-2 Regional distribution of large/medium enterprises

Region	Number of Firms	%
Nairobi & Environs	19,600	56
Coastal Regions	7,000	20
Other Towns	8,400	24
Total	35,000	100

Source: CBS, "Statistical Abstract 2004" quoted by the Ministry of Trade & Industry in "Private Sector Development Strategy 2006-2010".

Table1-3 Regional Distribution of MSEs

Region	Number of Firms	%
Nairobi & Mombasa	223,668	13
Other Major Towns	183,144	11
Rural Towns	96,720	6
Rural Areas	1,177,326	70
Total	1,679,858	100

Source: CBS, "National Baseline Survey of Micro & Small Enterprises 1999" and other data quoted by the Ministry of Trade & Industry in "Private Sector Development Strategy 2006-2010".

Sector Distribution of Enterprises

The sector distribution of enterprises may be looked at on the basis of categorization into the formal sector and informal sector. The former is dominated by large/medium enterprises, while the latter exclusively consists of MSEs. Most of MSEs in the informal sector, 65 percent, are engaged in "trade", followed by "other services", 22 percent. A relatively few of them, 13 percent, are engaged in "manufacturing". Specifically, which sub-sectors in services do they belong to? According to the sector-wise breakdown of customers of the micro finance institutions (KWFT) supported by the Netherlands, their services include such a variety as clinics, private schools, hair dressing and pay toilets[5]. On the other hand, the largest group of large/medium enterprises, 40 percent, provides "services", followed by "commerce", 33 percent. As in the case of MSEs, a relatively small portion of them is engaged in "manufacturing".

Table1-4 Sector Distribution of Enterprises

Sector	Number of Firms Formal Sector	%	Number of Firms Informal Sector	%
Manufacturing	4,900	13	218,382	13
Services	14,000	40	369,569	22
Trade	11,550	33	1,075,110	65
Others	4,900	14	-	-
Total	35,000	100	1,663,061	100

Source: IFC, "SME Survey 2004" quoted by the Ministry of Trade & Industry in "Private Sector Development Strategy 2006-2010".

Size of Enterprises and Owner's Gender

While many MSEs are run by self-employed owners, actually how small are they? Based on ILO's report in 2005, the table below reveals how many employees they have. According to this report, employees in MSEs total a little below 1.3 millions, which are considerably less than the estimate by the Ministry of Trade& Industry. ILO's report categorizes MSEs into the following brackets respecting the number of employees: 1, 2, 3-5, 6-10, 11-15, 16-25 and 26-50. The table shows that as many as 70 percent of them employ only one person, and 99 percent employ 10 or less. They look too small to be called an "enterprise".

[5] "An Evaluation of Micro-Finance Programmes in Kenya as Supported through the Dutch Co-Financing Programme, With a Focus on KWFT", 2002, p49.

Table1-5 Number of MSE's employees

Number of Employees	Number of Firms	%
1	899,787	70
2	229,759	18
3--5	111,671	9
6--10	33,374	3
Sub-Total	1,274,591	99
11--15	6,418	1
16—25	1,283	0
26—50	1,283	0
Total	1,283,575	100

Source: ILO, "Support for Growth-oriented Women Entrepreneurs in Kenya", 2005, quoted by "National Baseline MSE Survey, 1999".

Next, MSE owners' gender will be looked at. The table below classifies MSEs in accordance with owner's gender and location. In the case of MSEs in cities, 48 percent are run by males, and 52 percent by females, a little more than male-run firms. In rural areas, however, the distribution is reversed: male-run firms have the narrow majority. Because, as was stated above, more MSEs are in rural areas than in cities, the nation-wide distribution is in favor of male-run firms at 52 percent.

Table1-6 Distribution of MSEs per owner's gender and location

Location	Male-run Firms		Female-run Firms		Total	
City	213,262	48%	227,886	52%	441,148	100%
Rural Area	457,465	54%	384,961	46%	842,426	100%
Total	670,727	52%	612,848	48%	1,283,575	100%

Source: the same with table 1-5.

Next, the number of employees is examined in the light of the distinction between male-run firms and female-run firms. It is revealed that male-run enterprises have more employees both in cities and rural areas. The former employs 2.1 persons in an average, while the average female-run firms employ 1.5 persons. Both employ only a few but a subtle difference is observed.

Table1-7 Distribution of employees of MSE per owner's gender and location

Location	Number of Employees Male-run Firms		Number of Employees Female-run Firms		Total	
City	470,380	58%	338,940	42%	809,320	100%
Rural Area	944,270	61%	607,660	39%	1,551,930	100%
Total	1,414,650	60%	946,600	40%	2,361,250	100%
Average	2.1		1.5		1.8	

Source: The same with Table 1-5.

Constraints Impeding Growth and Management

While Kenyan enterprises are mostly small, they are not very likely to grow into medium enterprises. According to the 1999 MSE Survey, the more are employed by them, the more likely are they discharged later. (Please see the table below.) Fifty-two percent of enterprises employing 4 persons or more are most likely to fire their employees, while 19 percent of one-employee enterprises tend to hiring more later. Namely, they are repeating expansion and contraction, going back and forth between the one-employee bracket and several-employee bracket, while only a few of them grow into medium enterprises. An observation made at the outset of this chapter is confirmed here; namely, a dual structure where the "missing middle" feature is conspicuous and large, often foreign-affiliated, enterprises and MSEs have formed a dichotomy.

Table1-8 Change in the number of employees of MSE (%)

No. of Employees	Constant	Decrease	Increase
1	80	0	19
2	65	20	15
3	54	30	15
4 or more	49	51	0

Source: The same with Table 1-5.

Why do MSEs fail to grow? To answer this question, managerial constraints faced by them are listed below in accordance with the 1999 Survey mentioned above. On the basis of the survey in both cities and rural areas, “markets and competition” and “lack of credit” are the most serious. Besides them, in cities, “power interruption and inaccessibility to electricity”, “interference from authorities” and “lack of worksites” are perceived to be major constraints; while, in rural areas, “poor roads/transport” and “poor access to water supply” are pointed out. In view of these results, MSEs need technical support designed to help them in marketing, product development and quality improvement, while financial support such as micro finance also seems useful.

Table1-9 Managerial constraints faced by MSE (%)

	City	Rural	Total
Markets & Competition	62	39	34
Lack of Credit	56	44	18
Poor Roads/Transport	34	66	7
Shortage of Raw Material & Stocks	51	49	7
Interference from Authorities	81	19	6
Poor Security	60	40	3
Lack of Worksites	78	22	3
Lack of Skilled Labor	50	51	1
Power Interruptions & Inaccessibility to Electricity	100	-	1
Poor access to Water Supply	41	59	1
Others	9	8	9
No Problems	12	8	12
Total	-	-	100

Source: The same with Table 1-1.

1.2 Policies for MSE Promotion

1.2.1 Framework of Policies

Position in PRSP

In 2004, the Kenyan Government produced the paper titled below, spelling out strategies for poverty reduction (PRSP), which describes its policies for poverty reduction and economic growth in an attempt to attain the development goals for the Millennium:

Investment Programme for the Economic Recovery Strategy for Wealth and Environment Creation 2003-2007, March 12, 2004 (Revised) [6]

The PRSP consists of the following 7 chapters:

Chapter 1: The Consultation and Institutional Process for the Economic Recovery
Chapter 2: Situational Analysis of the Economy and Poverty in Kenya
Chapter 3: Economic Growth
Chapter 4: Equity and Poverty Reduction
Chapter 5: Governance
Chapter 6: Financing Framework

[6] IMF’s website: http://www.imf.org/external/pubs/ft/scr/2005/cr0511.pdf

Chapter 7: Monitoring & Evaluation and National Statistics
Appendix 1: Matrix of Objectives, Outcomes, Costs and Enabling Activities
Annex 1: Logical Framework Matrix for Kenya's Economic Recovery Strategy for Wealth and Employment Creation

Chapter 3 titled "Economic Growth", deals with the MSE, and. following the macroeconomic analysis, spells out policies for "Financial Sector Reforms", "Infrastructure" and "Productive Sectors". Though policies to promote the MSE should be included as policies for the "Productive Sector", the corresponding section does not explicitly discuss such policies, and talks about tourism promotion, trade/investment (for strengthening international competitiveness) and industrialization. Appendix 1, titled "Matrix of Objectives, Outcomes, Costs and Enabling Activities" does not deal with the MSE, either, but Annex 1 reproduced below treats policies for MSE promotion as one of "Outputs and Activities/Policies" aiming at economic growth.

Table1-10 Logical Framework Matrix for Kenya’s Economic Recovery Strategy for Wealth and Employment Creation

PART A. 1: Economic Growth Macroeconomic Framework & Financial Sector Reforms			
PART A. 2: Economic Growth Infrastructure			
PART A. 3: Productive Sector			
Narrative	Indicators	M & E*	Assumptions/Risks
Development Outcomes			
Increased dynamism in the tourism, trade & industry			
Outputs (only those relevant to MSE)			
Sessional Paper on Industrial Transformation Operationalized	Sessional Paper on MSE made public in 2004	Implementation report	
Title deeds issues to Jua Kali Associations	Title deeds issued to Jua Kali Assoc.		Absence of land disputes
Increased access to MSE services	25 % of MSE access loans by 2006		Availability of loanable funds
	25 % of MSE with market outlets by 2006		
	25 % of MSE trained by 2006		
Activities/Policies (only those relevant to MSE)			
MSE			
Finalize Sessional Paper on MSE with focus on employment creation			
Strengthen financial institutions providing small business credit, such as the Kenyan Industrial Estates (KIE)			
Develop market for training small business entrepreneurs, possibly through demand incentive schemes			
Strengthen vertical linkages within the industrial sector and subcontracting arrangements built in privatization processes	Identification of institutions, dissemination & sensitization		
Provide information on technology and marketing			
Enhance provision of infrastructure and finance for the Jua Kali sector	Rehabilitation of 653 sheds & construction of 14 more sheds while putting in practice a micro-financing policy by end of 2004		

* “M&E” denotes “Monitoring & Evaluation.”

Source: Investment Programme for the Economic Recovery Strategy for Wealth and Employment Creation 2003-2007, March 12, 2004 (revised)

In May, 2005, after PRSP's announcement, the Ministry of Planning & National Development produced an Annual Progress Report: 2003/2004[7] respecting PRSP's strategies. While the Report does not cite any specific figure showing the progress, the following four tasks are considered of major importance for MSE promotion:

・ Promote employment by MSE as well as registration of them belonging to the informal sector
・ Set up export processing villages for MSE
・ Complete a Sessional Paper concerning policies for promotion of MSE
・ Complete the Micro- Financing Bill

The Report then points out the following progress in 2003/2004:

・ The Sessional Paper was finalized covering policies for MSE promotion, awaiting confirmation of Parliament.
・ The Ministry of Finance drafted the Micro-Financing Bill for improving MSE's access to financing and it is being discussed.
・ The Ministry of Trade & Industry and World Bank agreed to implement the "Micro, Small & ・ Medium Enterprise Competitiveness Project" in August, 2004.
・ In 2005, the Ministry of Trade & Industry in collaboration with other agencies concerned produced "Private Sector Development Strategy 2006-2010", which will be explained in the next section.

In the PRSP, the MSE promotion is designed not necessarily as means for poverty reduction but as an engine for economic growth. The Ministry of Trade & Industry is entirely responsible for the promotion, while the Ministry of Finance is for improving climate for financing the MSE. Meanwhile, the Ministry of Labour and Human Resources Development has the Department of Micro and Small Enterprise Development, whose functions are not yet clear[8].

1.2.2 Contents of Policies for MSE promotion

In order to attain the goals for economic growth declared by the PRSP, the Ministry of Trade & Industry produced the PSDS (Private Sector Development Strategy 2006-2010). Because the private sector is expected to play an important role in place of state enterprises, one of important functions of the Ministry of Trade & Industry is to encourage growth and strengthen competitiveness of the MSE. The PSDS therefore specifies the following two strategic objectives:

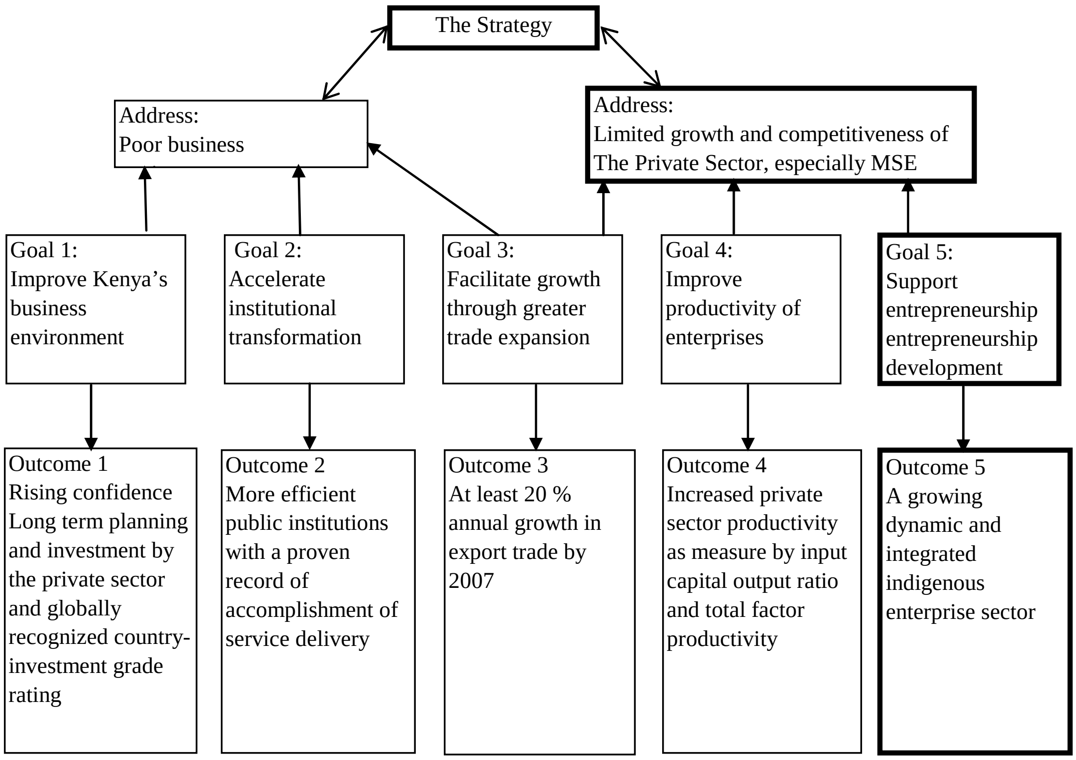
1. To create a conducive business environment for the private sector growth by alleviating major constraints
2. To enhance the growth and competitiveness of the private sector, especially the MSE

For these objectives, the following five goals are specified:

Improve Kenya's business environment
1) Improve Kenya's business environment
2) Accelerate public sector institutional transformation
3) Facilitate economic growth through greater trade expansion
4) Improve productivity of enterprises
5) Support entrepreneurship and indigenous enterprise development

The figure below sums up linkages between these five goals and outcomes.

[7] The document can be downloaded at the website of the Ministry of Planning & National Development: http://www.planning.go.ke/pdfs/iper2004-05mayreport.pdf
[8] The Department is referred to in ILO's "Support for Growth-oriented Women Enterprises in Kenya" (2005).



Source: Ministry of Trade & Industry, "Private Sector Development Strategy 2006-2010".

Figure1-1 Strategy for development of private sector—concept

The fifth goal particularly concerns support for the MSE. As was mentioned earlier, Kenya's large firms are mostly subsidiaries of multinationals, while indigenously capitalized enterprises are dominantly small or micro firms. The outcome of this goal is: creation of a growing dynamic and integrated enterprise sector. Then, to achieve Outcome 5, the following five objectives are to be attained:

(i) Facilitate development of new enterprises
(ii) Improve access to capital
(iii) Facilitate graduation and evolution of enterprises
(iv) Promote firm-to-firm linkages
Promote broader representation in business associations

The PSDS then spells out concrete strategic actions corresponding to each of the five objectives.

Facilitate Development of New Enterprises

According to the estimate of the Ministry of Trade & Industry, there are about 1.7 million MSEs, most of which are not registered and belong to the informal sector. They are rarely well prepared when they start business but their start-ups are necessitated by lack of other means to earn income. Consequently, they have neither basic knowledge in business nor clear business plans. Most of them therefore are forced to close their businesses soon. Only a few of them enjoy BDS, Business Development Service, and have difficulty in finding worksites. The Government therefore plans to implement the following three strategic action plans to support potential start-ups:

・**Fast track establishment of National Council for Small Enterprises, NCSE**

The Council will focus on the appropriate regulation and development of MSEs to facilitate the development of an enabling environment for the provision of effective technical services to the MSE.

・**Support capacity building for Incubator Programmes**
The Programmes will assist start-up business develop through the provision of the BDS including technical support and training.

・**Support the Youth Entrepreneurship Programmes**[9]
The YES-MSE Programme has three phases: namely, (a) Cultivating an entrepreneurship mindset and business skills development, (b) Industry placement training for acquiring practical experiences, and (c) The development of training and consultancy skills. The Programme is designed to train youths, help them acquire business experience and assist them to start new business.

Improve Access to Capital
Commercial banks have traditionally avoided lending to an MSE, limiting its access to loan. The Ministry of Finance is drafting the Micro-Finance Bill and the SACCOs[10] Bill, but more efforts are needed.

・**Facilitate access to trade finance**
Through stakeholders' workshops and other means, MSE's access to trade loan will be facilitated.

・**Provide technical support to the micro-finance industry**

The PSDS will assist the Association of Micro-Finance Institutions, AMFI, to provide the required technical support to their members.

・**Support Credit Reference Legislation**
The PSDS will support the enactment of the law that seeks to help establish credit inquiry firms to improve MSE's access to loan.

・**Support the Women Enterprise Development Project**
The ADB and ILO have jointly set up the Project to assist women's enterprises' access to capital. The PSDS will support the Project by creating national awareness and other means.

・**Facilitate long-term finance products**
For various reasons, MSE's access to long-term loan has been limited. The Government has recently begun to issue 10-year bonds, and, by other means as well, will help expand MSE's opportunity to get long-term finance.

Facilitate Graduation and Evolution of Enterprises
Most of MSEs are started by individuals, and they rarely grow into modern enterprises. Their knowledge in management such as corporate governance and marketing is limited. They are reluctant to disclose business information even if they are recommended to listen to business advice provided as the BDS. Under such circumstances, the PSDS will provide the following support to help them grow larger:

・**Provide increased access to information**
The Export Promotion Council, EPC, administers the Centre for Business Information in Kenya, CBIK, whose role is to provide enterprises with information on export. The PSDS will thus support the upgrading of this facility to provide more information to its clients.

・**Support business skill upgrading**
Through the MSME Competitiveness Project, the PSDS will help expand training and in-house mentoring.

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[9] The Programme is being jointly undertaken by the Ministry of Trade & Industry and the Ministry of Youth Affairs recently established, and is funded by the UNDP.
[10] SACCO stands for Savings and Credit Cooperatives and is a kind of rotating savings and credit associations

・Through BSPS' MSE Support Division, the PSDS will directly try to strengthen MSE's competitive edges, and provide information on new markets and new technologies as well as on establishment of vertical linkages with large firms such as sub-contracting.

Promote Firm-To-Firm Linkages

The interaction between Kenya's private sector and the international economy is weak. This is because few Kenyan firms have enough specialized knowledge in financing, packaging, marketing and physical distribution. To this end, firm-to-firm linkages between large enterprises and MSEs should be promoted. Such linkages should include outsourcing, franchising and sub-contracting aiming at mutual benefits.

・**Support value chain sub-sector initiatives**

The MSME Competitiveness Project will conduct a value chain sub-sector analysis, while feasibility of linkages between large firms and MSEs will be looked into.

Promote Broader MSE representation in Business Associations

The majority of indigenous businesses are members of the Kenya National Chamber of Commerce and Industry (KNCCI). Due to various reasons, however, the KNCCI has not been as effective as required. Though the informal sector has numerous umbrella organizations, they are not effectively working, either.

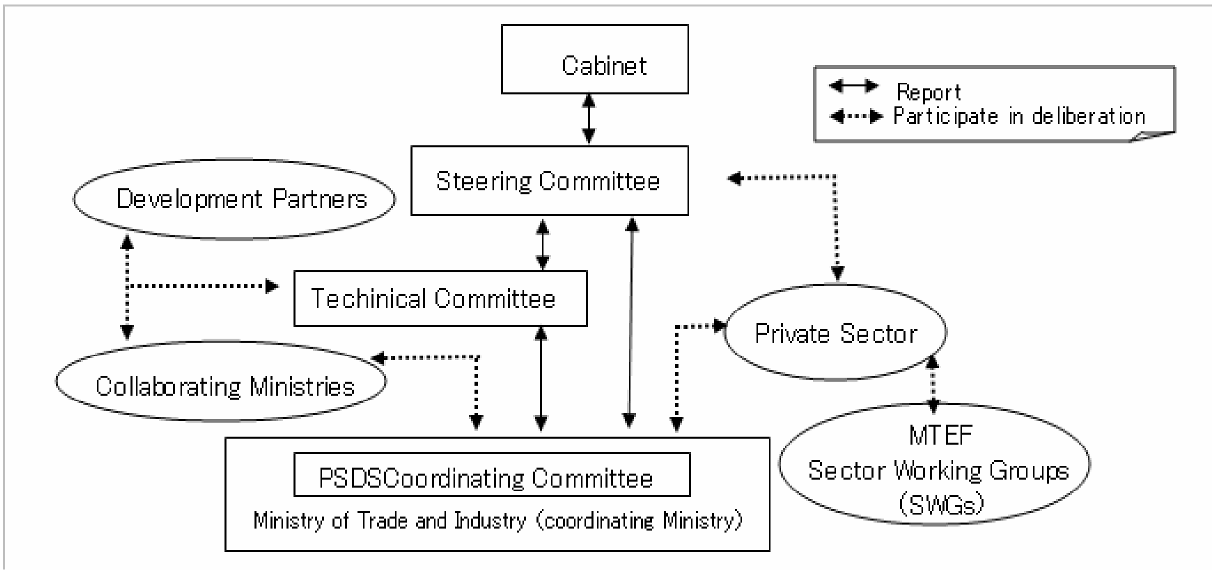
・**Capacity building of business associations formed by MSEs**

The PSDS will support these associations by providing technical support for organizational capacity building.

1.2.3 Implementation Framework and Funding

Implementation Framework

The implementation framework of the PSDS is organized as shown in the figure below. Namely, reporting to the Cabinet, the Steering Committee is empowered with responsibility for PSDS' operations and monitoring. The Committee is formed by the Permanent Secretaries of the Ministries of Trade & Industry, Finance and Planning, as well as others. The Technical Committee is a high level, inter-ministerial committee, with representation from both the private sector and development partners, and provides technical guidance in the implementation of the PSDS. The PSDS Coordinating Office is responsible for implementation, coordination and funds management. The Office is placed under the supervision of the Ministry of Trade & Industry, which is charged with responsibility for the private sector development. Being Government's function, the PSDS is funded through the provisions of the Medium Term Expenditure Framework, MTEF. Eight Sector Working Groups have been set up to deal with details of the MTEF. Each Group will discuss implementation plans of the PSDS, and its outcome will be assembled by the Coordinating Office for reference respecting each of the five goals.



Source: Ministry of Trade & Industry, "Private Sector Development Strategy 2006-2010".

Figure1-2 PSDS implementation structure

Funding

The BSDS is funded by the Government, the private sector and the Development Partners. The budget must be authorized by the Steering Committee. The table below presents the indicative budget plan for each year corresponding to the five goals.

Table1-11 PSDS indicative budget (Ksh. Million)

Goal	Year 1	Year 2	Year 3	Year 4	Year 5
Goal 1: Improve business climate	310	150	158	165	174
Goal 2: Accelerate institutional transformation	175	255	268	281	295
Goal 3: Economic growth through trade expansion	79	74	78	82	86
Goal 4: Improve productivity	53	62	65	68	72
Goal 5: Entrepreneurship & indigenous enterprise development	243	254	267	280	294
Sub-total	860	795	835	877	920
Budget Coordinating Office	102	96	101	106	111
Grand total	962	891	935	982	1,301

Note: Ksh 1= 1.7 yen as of January, 2007

Source: Ministry of Trade & Industry, "Private Sector Development Strategy 2006-2010".

The PSDS includes a matrix for its implementation. Shown below are its parts relevant to the MSE.

Table1-12 PSDS—implementation matrix

PSDS Objectives	Strategic Actions (Catalytic Actions)	Agency	Period	Verifiable Indicators	Budget Kshs (Mn)	Indicative Activities
Goal 5: Entrepreneurship and Indigenous Enterprise Development						
Objective 1: Facilitate development of new enterprises	1 Fast track establishment of National Council For Small Enterprises (NCSE)	MoTI MoLHRD	June ' 08	NCSE established	20	· Operationalization of the Council · Business plan · Policies and procedures · Terms of reference · Recruitment
	2 Capacity building for incubator program	**MoTI**, KIE KIA, EPZA JKUAT, ICIPE	June '07	No. of incubated businesses	75	· Technical support · BDS · Training
	3 Support the youth entrepreneurship program	**MoYA,** MoTI	Ongoing	· No. of youth enterprises · National Youth Council established	10	· Operationalization of the Council · Create awareness · Technical support
Objective 2: Improve access to capital	1 Facilitate access to trade finance for MSE	**MoF**, KBA	June '07	No. of MSE using trade finance products	10	Workshops
	2 Support micro finance industry to benchmark lending models	AMFI,CBK	June '08	· Manual on MSE lending models · Increased financial products and services to MSE	15	· Benchmarking · Studies · Technical support
	3 Support of reference legislation	MoF	June '07	· Increased No. of competitive credit bureaus	2	Stakeholders' forums
	4 Support the Women Enterprise Development Projects	**MoTI**, MoF	June '08	No. of loan applications and recipients	15	Awareness campaigns countrywide
	5 Facilitate the provision of long term finance products	MoF	June '08	No. of long term financial products	10	· Technical support · Awareness campaign
Objective 3: Facilitate graduation and evolution of enterprises	1 Support expansion of CBIK to provide increased access to information for MSEs	EPC	Ongoing	· Increased access to Information · No. of MSEs receiving access to information	50	· Upgrading the facilities · Increase its source of information · Provision of BDS
	Support the business skills upgrading Components of the MSE competitiveness project	MoTI	Continuous	No. of businesses trained	10	· Training programs · Attachments · Mentoring
	3 Support the MSE component of BSPS project	MoTI	Continuous	Increased BDS levels	10	Provision of BDS
Objective 4: Promote firm-to-firm linkages	Support value chain sub-sector initiatives that will strengthen firm-to-firm linkages and enterprise networking	MoTI	Ongoing	No. of MSEs receiving support	250 15	· Sub-sector analysis · BDS · Linkages to large enterprises
Objective 5: Promote broader MSE representation in business associations	Capacity building of MSE umbrella associations	MoTI	June '08	Strong MSE umbrella organizations and effective MSE representation		· Technical assistance · Draft constitutions · Operational structures

1.3 Strategy for Supporting MSEs

1.3.1 Micro Finance

In Kenya, the micro finance is relatively new. While some kinds of such finance were initiated in the 1980's, it was put into full practice about a decade ago with the participation of a number of institutions. Now there are numerous kinds of micro finance institutions (referred to "MFI"), consisting of those with formal registration at the Government agencies and those without registration. Some of them lend to unspecified clients, while others lend only to their members. The table below categorizes MFIs in accordance with the distinctions mentioned above. First, (a) NGO-MFI and commercial banks belong to the formal sector and lend to unspecified clients, (2) SACCOs and others belong to the formal sector but lend only to pre-specified clients, (3)
merchants, moneylenders, families, friends and other miscellaneous parties belong to the informal sector and do not have members, and (4) ROSCAs and ASCRA, which are called "rotating savings and credit association (<u>tanomoshi-ko</u>)" or "mutual financing association (<u>mujin</u>)" in Japan, belong to the informal sector and lend to their members.

Table1-13 Types of MFI in Kenya

	Formal Sector (registered)	Informal Sector (not registered)
Lend to unspecified clients	NGO-MFI Commercial bank	(3) merchant, moneylender, family, friend,
Lend to pre-specified clients	(2) cooperatives (SACCO)	(4) rotating savings & financing association (ROSCA, ASCRA)

Source: Based on Table 2-1 in "An Evaluation of Micro-Finance Programme in Kenya as Supported through the Dutch Co-Financing Programme", 2002, Netherlands.

<u>Profile of NGO-MFI</u>

About 130 NGOs are engaged in the micro finance as NGO-MFI, and more have rapidly entered into the business in the last decade. Some of them, however, provide the micro finance in a package with other supporting activities. Reportedly, only about 20 of them are specialized in the micro finance. Among them, the followings are relatively in a large scale in terms of the number of clients and loan amounts:

- KWFT (Kenya Women Finance Trust)
- Faulu Kenya
- CARE-WEDCO
- NCCK-SMEP

The table below lists the number of clients and outstanding amounts of loan of major NGO-MFIs including the large MFIs mentioned above. In total, more than 85,000 clients have borrowed about Ksh. 750 million. The share of KWFT, the largest, is 15 percent in terms of the number of clients and 17 percent in terms of the outstanding loan amounts. If the above-listed four largest institutions are combined, they account for 45 percent of clients and 62 percent of the outstanding loan. Though, as was pointed out earlier, between 1.3 million and 1.7 million MSEs are estimated to exist, only less than 100,000 of them have borrowed from MFIs. In view of this contrast, Kenya's micro finance is still in its infancy, and does not yet fully satisfy MSE's demand.

Table1-14 The number of clients and outstanding loan of Kenya's NGO-MFI

		Number of Clients		Outstanding Loan, Ksh.	
KWFT	May, 1999	13,242	15%	124,000,000	17%
Faulu Kenya	June, 1999	10,073	12%	146,777,405	20%
CARE-WEDCO	July, 1999	8,478	10%	79,000,000	11%
NCCK-SMEP	July, 1999	6,737	8%	104,000,000	14%
BIMA	July, 1999	2,650	3%	19,217,142	3%
ECLOF	July, 1999	3,500	4%	70,000,000	9%
K-LEP NGO (FSA)	July, 1999	5,023	6%	5,166,590	1%
Other NGO (est.)	July, 1999	36,000	42%	200,000,000	27%
Total		85,703	100%	748,161,137	100%

Note: "Outstanding loan" = Portfolio outstanding
Source: Based on Table 2-3 of the document quoted in Table 1-13 above.

KWFT, the largest, was founded in 1981 and its mission is to lend to women entrepreneurs. Its micro finance has been in full motion since 1991. The purpose is to make small amount loan without providing technical assistance to entrepreneurs. Its financing method basically takes after that of Glamin Bank in Bangladesh, but also lends through rotating savings and financing associations. Its average amount of loan per client is Ksh. 10,000 to 50,000 (about 20,000 yen). With 8 regional offices, KWFT operates in the whole country. The table below lists its performance in 2000 reported in its annual report. Among the regions, the Mt. Kenya Region is in the largest scale both in terms of the number of clients and disbursed amounts of loan, followed by Capital Nairobi.

Table1-15 Regional distribution of clients and disbursed loan of KWFT (1999)

Region	Number of Clients		Amount of Loan Ksh.		Loan per Client, Ksh.
Mt. Kenya	6,922	37%	135,185,000	35%	19,529
Nairobi	5,351	29%	125,000,000	33%	23,360
Coast	3,713	20%	66,459,000	17%	17,899
Rift Valley	2,693	14%	54,075,000	14%	20,080
South Nyanza	58	0	2,580,000	1%	44,493
Western (new)	n.a.	n.a.	n.a.	n.a.	n.a.
Total	18,737	100%	383,294,000	100%	20,457

Note: "Amount of Loan" = Total disbursement
Source: Based on Table 2-11 of the document quoted in Table 1-13 above.

Profile of Commercial Banks

As of 2001, there are 49 commercial banks, 4 non-banks and other kinds of private financial intermediaries. Only a few, especially in rural areas very few, of them, however, provide the micro finance. Major commercial banks providing the micro finance are:

- K-Rep Bank
- Kenya Commercial Bank
- Post Bank
- Cooperative Bank
- Barclays (through DFID's Small Business & Training Scheme)

The table below shows the number of clients and outstanding amounts of the micro finance by major commercial banks. According to the table, K-Rep Bank's lending is in the dominantly largest scale, accounting for 86 percent of clients and 48 percent of the loan amount. The table, however, does not include Post Bank, and consequently does not reflect the current status correctly. Post Bank has 494 branches all over the country, employs about 1,300 persons, and collects deposits outstanding at Ksh. 6.9 billion. Compared with K-Rep Bank with 22 branches, 122 employees and less than Ksh. 300

million deposits, Post Bank is very large. Regrettably, however, information is not available as to the scale of Post Bank's micro finance business.

Table1-16 The number of clients and outstanding loan amounts of commercial banks

		Number of Clients		Outstanding Loan, Ksh.	
K-Rep Bank	July, 1999	13,613	86%	228,097,441	48%
KCB	July, 1999	2,016	13%	156,200,000	33%
Barclay (DFID, Small Business & Training Scheme)	July, 1999	268	2%	88,867,199	19%
Total		15,897	100%	473,164,640	100%

Note: "Outstanding Loan" = Portfolio outstanding
Source: Based on Table 2-3 in the document quoted in Table 1-13 above.

K-Rep Bank, which used to be an NGO named K-rep (Kenya Rural Enterprise Pprogramme), is a pioneering MFI in Kenya founded in 1989. Its mission is empowerment through start-up promotion. Besides K-Rep Bank, a consulting company named K-Rep Advisory Service and an NGO named K-rep Development Agency provide the micro finance. These three institutions form K-Rep Holding. Being an R&D company dealing with micro finance, KDA, receiving USAID's financial aid, conducts a variety of experimental finance in many places, and also provides technical service to other NGO-MFIs.

Profile of Cooperatives
Called SACCO (Saving and Credit Cooperatives), the cooperative that makes micro credit is designed for its members to help each other. SACCO's establishment is authorized pursuant to the Cooperative Societies Act. The largest two of them are:

- KUSCO (Kenya Union of Saving and Credit)
- KERRUSU (Kenya Rural Saving and Credit Cooperatives Society Union)

There are more than 4,000 cooperatives in the country, while their members outnumber 2.9 millions. According to the 1999 statistics, their outstanding credit amounts to Ksh. 22 billion. Compared with less than 20,000 clients borrowing from NGO-MFIs or commercial banks providing the micro finance with outstanding credit less than a billion Ksh, the magnitude of cooperatives' micro finance business is remarkable. Views are divided, however, whether cooperative(s credit should be counted as micro finance. Though the objective of the micro finance is to support business starters in poor areas, who are unable to access to capital, main clients of KUSCO and KERRUSU are middle-class people with regular revenues. Specifically, the borrowers are farmers growing such commercial crops as coffee, tea and a pyrethrum, or teachers earning regular cash revenues. Many cooperatives are founded by co-workers or farmers growing same commercial agricultural products.

Profile of Rotating Saving & Credit Associations
Like other businesses belonging to the informal sector, little information is available on rotating saving and credit associations in Kenya. As their members are mainly women, tens of thousands of women nationwide are guessed to be belonging to such groups. Like the corresponding associations in Japan, the members regularly deposit a small amount of money and borrow a pre-determined amount taking turns. In Kenya, such a system is called "merry go round", "itega" or "giteti". Apparently, the following two associations are their umbrella organizations, but information on their activities is not available:

- ROSCAs (Rotating Savings and Credit Associations)
- ASCRAs (Accumulating Savings and Credit Associations)

1.3.2 Technical Cooperation

As was explained above, MSEs are engaged in a variety of economic activities in commerce, services or manufacturing. They are found not only in cities but in rural areas. Technical assistance to MSEs targets either firms in rural areas processing agricultural products or those in urban areas conducting manufacturing or service activities. Meanwhile, other kinds of technical assistance aim to strengthen organizations of NGO-MFIs providing the micro finance, or to formulate its legal/administrative frameworks. Such assistance will be discussed below.

Kenya Business Development Service Program

Targeting MSEs in rural areas, the Program was initiated by the USAID. Its objectives are to improve MSE's access to markets, and to make their agricultural products more competitive. Three sub-sectors are specified for making the supply chain more efficient and for disseminating better processing techniques. In 2003, the Program chose tree fruits, particularly avocados, passion fruits and mangos, targeting farming areas for these crops. The following eight activities are being carries out:

Improve collection and sorting processes of crops
Build quality assurance systems (traceability, post-collection control, etc.)
Improve access to input materials (seeds, pesticides, etc.)
Upgrade business skills
Disseminate proper technologies (irrigation, processing, etc.)
Labeling
R&D (plant breeding, etc.)
Financial intermediation

Actual supporting activities are entrusted to Kenyan facilitators. As of January, 2007, among 140 organizations, which were willing to receive the assistance, 70 were selected. Subsequent to tree fruits, fishing in the Lake Victoria (Nile perches, etc.) has been targeted. The Program will be continued for 5 years, supporting 80,000 MSEs.

Training and Technology Program

Administered by the Ministry of Research Training and Technology, the Program is being funded by the World Bank beginning in 1994. The program was called "Jua Kali" (the hot sun) in its inception. Jua Kali means micro-scaled manufacturers and repairers who work in cities in the sun. At present, other kinds of workers and women are also eligible for the support. A unique feature of the Program is that, instead of Government's imposing advice, an MSE receives a service coupon called "voucher", which entitles the MSE to receive services from consultants chosen by the recipient MSE. The scheme was formulated in this manner because past practices, namely Government's imposition of advice, did not match MSE's needs and was not therefore effective. Besides, the Program is to enable consultants to find new MSE customers who formerly were not targeted as potential customers. A voucher is not free but beneficiaries are required to pay 10-50 percent of the cost depending on the contents and phase of training. While there are 300,000 MSEs in manufacturing and related service sectors, about 32,000 of them are expected to benefit from the Program.

Improvement in Policy, Regulation and Environment

Some donors sponsor technical assistance schemes for empowering NGO-MFI's organizations, or streamlining legal/administrative frameworks of the micro finance. The former is being carried out through the Association of Microfinance Institutions (AMFI), which organizes training sessions for 11 MFIs and banks under its umbrella The EU also provides MFIs with technical assistance for its empowerment in the context of its Micro-Enterprises Support Programme (MESP), emphasizing development of financial products, marketing and organizational empowerment.

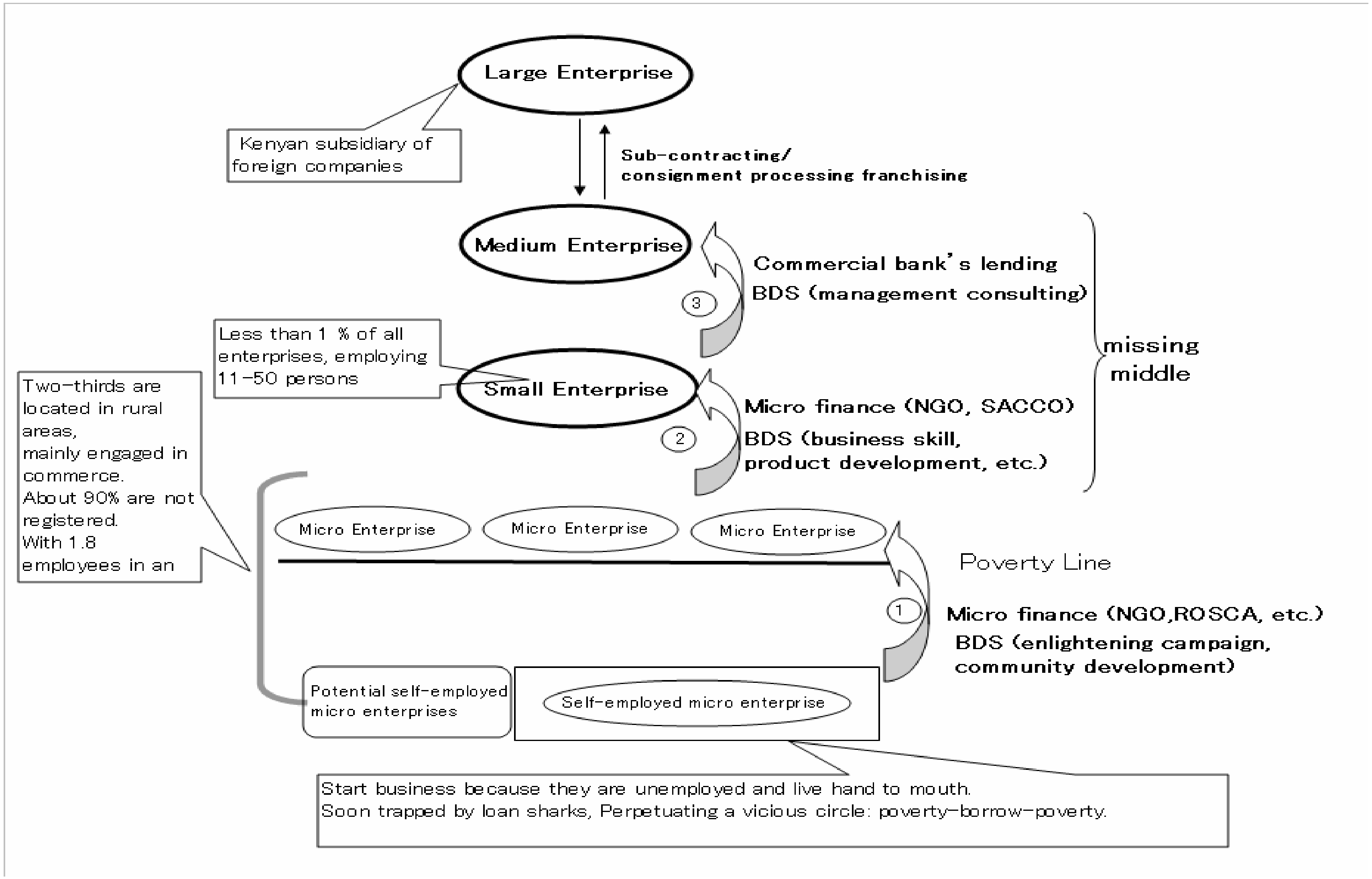


Figure1-3 Relationship between MSEs and supporting schemes

1.4 Summary

The figure above sums up the relationship between MSEs and the supporting schemes for them. Because of extremely limited opportunities for employment, numerous households are engaged in self-employed businesses to earn their living. Their businesses are in a very small scale due to a shortage of start-up capital. Since their access to capital is confined to moneylenders charging high interest rates, they are unable to repay the loan and soon trapped in a vicious circle repeating: poverty-borrowing-poverty. The micro finance enables such a poor MSE to grow into a profitable and viable firm by providing it with a small amount of funds at a relatively low interest rate. Meanwhile, the assistance programs cover activities for enlightening, explaining financing mechanisms to MSEs, and formulating schemes for group financing, if applicable.

Micro enterprises, which became viable, are expected to grow into small enterprises. In practice, however, few grow into small enterprises, which account for only 1 percent of all enterprises. Medium enterprises are also rare, as they are labeled “missing middle”. Micro enterprises trying to grow into small enterprises need support specifically targeting them as well as other kinds of support including the BDS, namely technical assistance ranging from provision of incubators, and acquisition of business skills to help them in product development and in other fields.

Once a small enterprise has succeeded in growing into a medium enterprise, it is required to tighten firm-to-firm linkages with large enterprises, for instance, in the form of sub-contracting for consignment processing or franchising. While the Ministry of Trade & Industry aims to promote such linkages between medium and large enterprises, only a few MSEs have arrived at such a development stage.

Chapter2 Uganda[1]

In rural areas where numerous poor people live, those earning their living mainly on non-agricultural sources are better off than those mainly living on agriculture. Non-agricultural activities in rural areas are carried out dominantly by micro, small or medium enterprises spreading in a variety of sectors. These enterprises provide 12 percent of rural employment and 40 percent of urban employment. The Government regards development of micro, small and medium enterprises as an important means to alleviate poverty in both urban and rural areas[2].

2.1 Definition of Micro and Small Enterprises

In Uganda, micro and small enterprises (referred to as "MSE") are defined as listed below.

Table2-1 Definition of MSE

	No. of Employees	Asset Value*	Annual Sales
Micro	Below 5	Below Shs.2.5 million	Below Shs. 10 million
Small	5 or more and below 50	Below Shs. 50 million	Shs. 10 million or more and below 50 million

* Excludes land, buildings and working capital.
Source: the Government of Uganda

MSE's current status will be described below following the definition listed above.

2.1.1 Status of MSE

The current status of MSEs is described below on the basis of "A Report on the Uganda Business Register 2001/2002"[3] published by the Statistics Bureau. Covering 160,000 firms employing 440,000 persons, the Report defines the enterprise employing 1 to 4 persons as "the informal enterprise", which corresponds to "the micro enterprise" defined above; and those employing 5 or more persons as "the formal enterprise". There are 150,000 informal enterprises, accounting for 93 percent of the entire industry.

Size/Sector Distribution of Enterprises

As is clear in Table 2-2, in terms of the number of employees, MSEs account for 99.7 percent, of whom micro enterprises (1-4 employees) employ 93.4 percent and small enterprises (5-49 employees) employ 6.3 percent. Enterprises with 100 employees or more account for only 0.2 percent. Regarding the sector distribution, the largest employer is "wholesale, retail, automobile repairing, etc." followed by "hotels and erstaurants" and "manufacturing". In these sectors, MSEs employing less than 5 or less than 10 persons account for 80 to 90 percent.

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1 Currency unit of Uganda is Uganda Shillings (Shs/UGS), UGS1=¥0.069.
2 The Government of Uganda, "Poverty Eradication Action Plan (2004/5-2007/8). P.70.
3 The Report is based on a survey covering formal and informal enterprises occupying buildings. It was conducted nationwide but Kitgum District and Pader District were not covered due to security reasons. The survey takes into account data provided by the Uganda Revenue Authority, Uganda Manufacturers' Association, Northern Uganda Manufacturers's Association and Uganda Investment Authority (UIA). Compared with 12 million active population of the whole country, the Report covers 160,000 businesses, consisting of formal enterprises employing 5 persons or more and informal enterprises employing 1 to 4 persons; whose combined employees total 440,000. Though, as the Report admits, it fails to reveal the status of the remaining majority, it is the most up-to-date survey among anything possibly available now, revealing the general picture of MSEs of the country. (Included in the "active population" but not covered by the survey are "government and other public sectors" and "self-supplied farmers" in the country's leading sector, agriculture, and formal/informal enterprises without buildings.

Table2-2 Number of enterprises in each sector classified per number of employees

Sector	No. of Enterprises Classified per No. of Employees							Share %			
	1-4	5-9	10-19	20-49	50-99	Over 100	Total	1-4	5-49	50-99	Over 100
Agriculture including Dairy, Forestry	86	177	92	38	13	39	445	19.3	69.0	2.9	8.8
Fishery	82	71	12	6	0	1	172	47.7	51.7	0.0	0.6
Mining, Quarrying	406	7	3	4	4	3	427	95.1	3.3	0.9	0.7
Manufacturing	9,519	1,607	445	211	70	92	11,944	79.7	18.9	0.6	0.7
Electricity, Gas, Water Supply	4	2	7	4	0	3	20	20.0	65.0	0.0	15.0
Construction.	88	59	41	26	15	14	243	36.2	51.9	6.2	5.8
Wholesale, Retail, Auto Repair, etc.	104,423	2,070	706	213	27	9	107,448	97.2	2.8	0.0	0.0
Hotel, Restaurant	18,497	1,506	341	97	16	11	20,468	90.4	9.5	0.1	0.1
Transport, Storage, Communication	493	185	73	51	6	17	825	59.8	37.5	0.7	2.1
Financial Intermediary	272	114	69	35	17	10	517	52.6	42.2	3.3	1.9
Real Estate, Lease, Service for Business	1,849	328	113	65	29	18	2, 402	77.0	21.1	1.2	0.7
Education	243	102	73	36	9	8	471	51.6	44.8	1.9	1.7
Health, Social Activity	2,577	427	147	59	20	19	3,249	79.3	19.5	0.6	0.6
Others	11,599	312	81	56	18	10	12,076	96.1	3.7	0.1	0.1
Total	150,138	6,967	2,203	901	244	254	160,707	93.4	6.3	0.2	0.2
								Micro	Small		

Note: In "Agriculture including Dairy, Forestry", only such formal farming as dairy, tea growing, sugar cane growing and other commercial farming is included. "Self-supplied farming", which would be classified in the formal sector if it belonged to other sectors, is not counted.
Source: Uganda Statistical Bureau, "A Report on the Uganda Business Register 2001/2002".

Regional Distribution of Enterprises

As Table 2-3 shows, 63 percent of the formal enterprises are located in the Central Region: particularly, 45 percent of them (4,739) and 40 percent of their employees are found in Kampala District, where the capital is situated. If the informal sector is also counted, 60 percent of the total employees are working in the Central Region.

Table2-3 Regional distribution of employees

Region	Number of Employees				
	Unknown	1-4	5 or more	Total	%
Central	83	90,209	6,699	96,991	60
Eastern	43	28,365	1,431	29,839	19
Northern	23	9,019	721	9,763	6
Western	27	22,545	1,718	24,290	15
Total	176	150,138	10,569	160,883	100

Source: The same with Table 2-2.

Sector Distribution of Enterprises

Uganda's largest industry is "wholesale, retail, automobile repairing, etc.", whose enterprises number about 108,000 and employees reach 20 percent of the total. The second largest is "hotels, restaurants" with 21,000 enterprises, accounting for 13 percent of the total number of enterprises and 40 percent of the total employees; followed by "manufacturing" with 12,000 enterprises, 7 percent of the number of enterprises and 12 percent of the total employees. (Please see Table 2-4.)

Table2-4 Sector Distribution of Enterprises

Sector	No. of Firms	%
Agriculture, Hunting, Forestry	449	0
Fishery	174	0
Mining, Quarrying	427	0
Manufacturing	11,968	7
Electricity, Gas, Water Supply	23	0
Construction	247	0
Wholesale, Retail, Auto Repair, etc.	107,486	67
Hotel, Restaurant	20,483	13
Transport, Storage, Communication	834	1
Financial Intermediary	539	0
Real Estate, Lease, Service for Business	2,414	2
Education	479	0
Health, Social Activity	3,273	2
Others	12,087	8
Total	160,883	100

Source: The same with Table 2-2.

“Wholesale, Retail” includes wholesaling of food/beverage, tobacco and agricultural inputs as well as retailing of unspecified goods (evenly divided into male-owned shops and female-owned shops), where many female-owned shops sell second-hand clothes. “Automobile Repair” includes sale or repairing of automobiles and sale of automobile parts, repairing of motor bicycles, and sale of fuels. “Hotel, Restaurant” includes hotels, camping sites, restaurants and taverns. In “Manufacturing”, apparel making is the largest sub-sector, accounting for 29 percent, followed by furniture manufacturing (29 percent), grain processing and starch manufacturing (15 percent), and metal processing (14 percent). Though in most sub-sectors in manufacturing, male employees outnumber females, in apparel (tailoring) and oil refinery, more females are working than males: 55 percent are females in the both sub-sectors.

From the viewpoint of the number of employees, the size of each sub-sector compares as described below. In most sub-sectors of manufacturing that are generally dominated by large enterprises, at least 100 persons are employed per enterprise in an average. These sub-sectors are the followings, which in combination account for 22 percent of the total employees in the manufacturing sector:

・Fish processing and storage
・Tea processing
・Sugar refinery
・Tobacco manufacturing
・Oil refinery
・Basic metal processing

The sub-sectors of manufacturing that are generally dominated by MSEs account for about 80 percent of the enterprises and a third of employees in the manufacturing sector. They are the following four sub-sectors:

・Grain processing, starch manufacturing
・Apparel making
・Assembly of metal products
・Furniture manufacturing

The sub-sectors listed above mainly consist of informal enterprises. Most of employees assembling metal products or making furniture are local crafts men called Jua Kali.

Ownership of Enterprises

As table 2-5 shows, more than 90 percent of all enterprises are owned by individuals, of whom 61 percent are males and 39 percent are females. Most of these owners employ either only one person, himself/ herself, or another person. In the cases of a few sectors, self-employed enterprises are not the majority. For instance, 44 percent of "Financial Intermediaries" are limited liability companies and 19 percent of them are NGOs; in "Transportation, Storage and Communication", 52 percent of enterprises are limited liability companies. Broadly speaking, however, self-employed enterprises form the majority.

Table2-5 Ownership of enterprises

Ownership	No. of Firms		No. of Employees		Owner	
					Male	Fe male
Individual	148,508	92%	265,449	60%	91,564	58,160
Partnership	6,075	4%	25,223	6%	9,868	4,756
Ltd. Liability Co.	4,322	3%	107,976	24%	5,789	1,381
NGO	595	0%	7,708	2%	277	139
Others	1,383	1%	37,762	9%	2,220	785
Total	160,883	100%	444,118	100%	109,718	65,221

Note: "Others" include religious legal corporations, public-private joint ventures, joint stock companies, cooperatives, semi-governmental corporations and other miscellaneous organizations.
Source: The same with Table 2-2.

Size of Enterprises and Owner's Gender

Table 2-6 compares the numbers of male employees and female employees in each sector. While most sectors employ more males than females, there are more females in "Hotel, Restaurant" (about 70 percent) and "Health, Social Activity" (57 percent).

Table2-6 Size of enterprises and owner's gender

Sector	No. of Firms	Employees			Share %	
		Male	Female	Total	Male	Female
Agriculture. Hunting. Forestry	449	9,736	5,047	14,783	65.9	34.1
Fishery	174	903	96	999	90.4	9.6
Mining, Quarrying	427	1,235	374	1,609	76.8	23.2
Manufacturing	11,968	70,588	16,543	87,131	81.0	19.0
Electricity, Gas, Water Supply	23	2,829	615	3,444	82.1	17.9
Construction.	247	6,633	707	7,340	90.4	9.6
Wholesale, Retail, Auto Repair, etc.	107,486	102,222	76,053	178,275	57.3	42.7
Hotel, Restaurant	20,483	16,269	37,862	54,131	30.1	69.9
Transport, Storage, Communication	834	10,161	3,737	13,898	73.1	26.9
Financial Intermediary	539	4,742	3,358	8,100	58.5	41.5
Real Estate, Lease, Business Service	2,414	15,871	4,308	20,179	78.7	21.3
Education	479	5,873	3,730	9,603	61.2	38.8
Health, Social Activity	3,273	7,480	9,916	17,396	43.0	57.0
Others	12,087	16,706	10,524	27,230	61.4	38.6
Total	160,883	271,248	172,870	444,118	61.1	38.9

Source: The same with Table 2-2.

Constraints Impeding Growth and Management

The Government recognizes the following constraints on growth faced by the MSE [4]:

・Lack of skills needed by entrepreneurs

・Poor access to finance and to the BDS (business development service) and its high cost

[4] The Government of Uganda, "Poverty Eradication Action Plan (2004/5-2007/8).

・Poor access to market information on product standards
・Unsatisfactory regulatory situations

2.2 Policies for MSE Promotion

As was described in the preceding section, MSEs account for more than 90 percent of the country's industry. The Government therefore is formulating its plan to improve business climate, sharpen competitive edges and promote the private sector, aiming, among other things, to foster MSEs:

2.2.1 Framework of Policies

The objective of the nation's medium term development policy is to eradicate poverty by achieving a high growth rate and to create employment through increased investment in the private sector. Namely, as a result of concerted efforts by the central/local governments, Parliament, donors and citizens, "The Poverty Eradication and Action Plan (PEAP)[5] was formulated, as the supreme national strategic plan, whose purpose is to reduce the absolute poverty by 10 percent thorough fast and sustainable economic growth. Subject to the PEAP, are the following three policy frameworks:

The Programme for the Modernization of Agriculture (PMA)
The Uganda Public-Private Partnership (UP3), which replaces "the Medium-Term Competitiveness Strategy (MTCS) in 2005
The Strategic Exports Programme (SEP)

The PMA aims to increase poor farmer's earnings by raising the productivity and increasing the production. The MTCS and UP3 aim to boost domestic economic activities by improving private business climate. The SEP aims to lower existing barriers impeding investment and to increase exports by strategic sectors.

Summarized below are the strategies relating to the MSE promotion, and, in particular, micro finance promotion contained in these frameworks.

The Poverty Eradication and Action Plan (PEAP)

The PEAP consists of the following five pillars:

(1) Economic management
(2) Production, competitiveness and incomes
(3) Security, conflict-resolution and disaster-management
(4) Good governance
(5) Human development

The purpose is to eradicate poverty by means of development led by the private sector. Promotion of MSEs is considered to be an action for this purpose. In the second pillar, named "(2) Production, competitiveness and incomes", there is a section titled "Strengthening the financial sector supporting increased production of goods and services", where promotion of MSE industries and micro finance is mentioned. In consideration of a tendency that non-farmers are able to increase their earnings more easily than farmers, the Plan aims to promote MSEs in such non-farm sectors as commerce, processing of agricultural products, restaurants/eating-houses, transportation and construction. MSEs generally lack entrepreneurial skills and can hardly access to the BDS, while their regulatory environment is unsatisfactory. For this reason, the PEAP is expected to result in MSE's increased production in terms of contribution to GDP and in increased MSEs with a license.

[5] The PEAP is the Uganda version of "the Poverty Eradication Action Plan (2004/5-2007/8) (the Ministry of Finance, Planning and Economic Development) It was formulated in 1997, providing the framework of the national plan, and was revised in August, 2003

The PEAP presents the following policy options:

・ Closer exchange of views between the Government and MSEs, especially leading to new trade regulations and strengthened standards internationally demanded.
・ Develop such systematic approaches that prevent excessive increase in uncoordinated initiatives.
・ Simplify tax-collecting systems for MSEs through joint efforts with local Governments both in urban and rural areas[6].
・ Improve investment climate by forming a framework of useful regulations and provide better services pertaining to efficient registration and to international trade.
・ Provide the private sector with the BDS to enhance entrepreneurial skills.
・ Improve environment for fostering MSEs.

The PEAP was revised in 2003 on the basis of analysis of challenges to be made by the micro finance sector. The themes dealt with include: capacity building, expanding outreach of micro finance, provision of more than one financial products, agricultural credit, treatment of micro finance providers who are not regulated or supervised (Tier 4 described in section 2.3.1 below), encouragement of saving, entry by commercial banks in micro finance business, interest rates, creditworthiness reference, impact assessment and business merger. The PEAP implementation is expected to increase clients for promotion of micro finance institutions.

The PEAP sets forth the following policy objectives for promotion of micro finance:

・ Continue implementation of the Micro Finance Outreach Plan to improve rural people's access to the financial service.
・ Develop and monitor mechanisms of micro finance institutions so that they will match needs of small farmers.
・Empower micro finance institutions for the benefits of the MSE and support their business skills.

Targeting progressive micro finance institutions, the Government has begun to reform the registration scheme in a way to enable them to collect deposit in prudent climate, and encourage establishment of credit reference bureaus benefiting the MSE. The Government is also exploring the feasibility of provision of micro finance in the sectors where such finance is not yet available, particularly, agriculture. Based on the Microfinance Outreach Plan, the Government intends to carry out capacity building and provide matching grants in an attempt to give incentives to financial service providers in rural areas. In addition, dissemination of such innovative financial products as lease and pensions are being considered.

The Uganda Public Private Partnership (UPS) (formerly, the Medium-Term Competitiveness Strategy for Private Sector (MTCS)

The UP3/MTCS, which was formulated as a medium term competitiveness strategy for the private sector within PEAR's framework, aims to improve business surroundings, sharpen competitiveness and promote the private sector. It sets forth the following four priorities:

(1) Structure for policy formulation and dialogue (including: coordination among Ministries and private parties, research, support of umbrella organizations, assistance to donors by simplifying support programs and more efficient supply of information to MSEs)
(2) Skill upgrading and training (including: enhancing capacity of training, training in entrepreneurship, training of trainers in MSE operations, and nation-wide community-based training targeting MSEs

[6] Taxing the MSE, imposing licensing requirements and local government's taxes on the MSE are not considered conducive but impediment to growth.

(3) Improvement of infrastructure (utilities and roads)
(4) The BDS (providing enterprises with consulting and other supporting services on a cost-sharing basis)

The Plan points to needs for improved access to financial services through improvement of infrastructure and empowerment of the financial sector and revision of the commercial law. Also emphasized is to regain general public's trust in the financial sector by encouraging small savings. Recognizing that sustained micro finance makes up for lack of financial services in Uganda, the MTCS paved way to establishment of the Microfinance Outreach Plan Unit (MOP) designed to coordinate development of financial services, especially agricultural credit[7]. MOP's goal is to increase micro finance clients by 25 percent annually during the period until 2006, acquiring 60 percent of new clients in rural areas.

The Plan for the Modernization of Agriculture (PMA)

The PMA substantiates one of PEAP's objectives: to promote commercialization of agriculture as a hopeful potential exporting sector. The Plan urges collaboration with saving institutions in rural areas to activate rural financing.

2.2.2 Implementation Framework

As said above, the PEAP is designed to eradicate poverty through development led by the private sector. MSE promotion is recognized as one of actions to this end, and a variety of activities are being undertaken by both Government and the private sector. Figure 2-1 sums up these support activities by the Government and the private sector for MSE promotion.

Micro and Small Scale Enterprise Policy Unit (MSEPU), which consists of 10 staff, coordinates a policy framework about microfinance. The actual executor of this policy is the Micro Finance Outreach Plan (MFOP), which consists of 15 staff and is responsible for the implementation.

MFOP is funded by the credit from IFAD (US$18million/7 years. It comes to the third year at the moment.). The purpose of MFOP is to promote transformation from 'the subsistence agriculture' to 'the commercial agriculture' in rural areas, and in this regard it provides both technical and financial services.

The activities conducted by the MFOP that mainly targets micro and small enterprises in rural areas are as follows.

1) Support business and culture
- Technical support to brush up business skill for entrepreneurs in rural areas.
- Develop service providers that can provide BDS for enterprises in rural areas.
- Establish and support financial institutions like SACCOs in rural areas.

2) Financial Support to SACCOs
- Establish an office and provide adequate fund to equip SACCOs in rural areas.
- Financial support for staff training.

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[7] In 2003, the Unit was moved out of the jurisdiction of the Prime Minister's Office to that of the Ministry of Finance. Its key partners are:
- SUFFICE/CBU
- Netherlands Development Agency (SNV)
- Association of Microfinance Institutions of Uganda (AMFIU)
- Microfinance Support Centre Limited (MSCL)
- Ankole Microfinance Association (AMFIA)
- Uganda Cooperative Saving and Credit Unions UCSCU)
- Uganda Cooperative Alliance (UCA)
- District Private Sector Promotion Companies (DPSPCs)

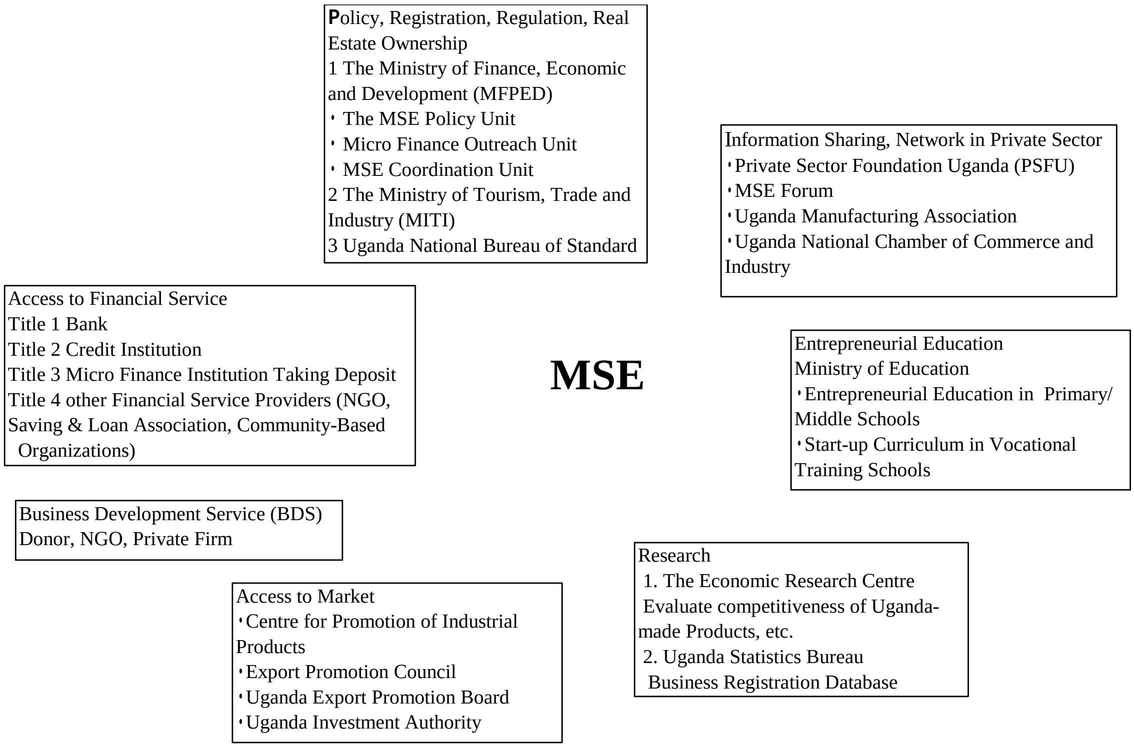
- Establish economically soundness SACCOs in all sub-countries[8] of 980.

3) Strengthen the capacity of Microfinance providers

Support to strengthen the capacity of Microfinance providers, as follows, will be executed in rural areas.

- Uganda Cooperative Alliance
- Uganda Cooperative Saving & Credit Union
- Association of Micro Finance Institutions of Uganda

Figure 2-1 is to look at the role and activities of organizations that support micro and small enterprises.



Source: The Study Mission

Figure2-1 Supporting activities for MSE promotion

2.3 Strategy for Supporting MSE

2.3.1 Improve Access to Capital: Micro Finance

The Government regards improved access to financial services, especially development of micro finance as one of the most important tasks for MSE promotion, and ensures that each of the three policy frameworks said above (PEAP, PMA and UP3/MTCS) cover micro finance. Starting in the mid-1990's, the micro finance business in Uganda rapidly expanded from 1998 to 2003. As a result of a large amount of aid proceeds inflow amounting to about US$ 40 million, of which US$20 million was directly channeled to micro finance institutions, of Government's active support, and of focused collaboration between major partners—implementing institutions, donors and Government—, the number of micro finance providers reached 1,500, consisting of NGOs, Saving and Loan Associations and bank's subsidiaries, mainly located in Kampala and other major cities.

Members of micro finance institutions outnumber a million, and the outstanding loan now amounts to

[8] There are approximately 30,000 to 40,000 people live in sub-county.

Shs. 97 billion. The loan amount per client averages at Shs. 283,266 (US$ 161), savings per depositor amount to Shs. 160,713 (US$ 92). Most of these micro finance providers are small, limited liability companies, whose clients are not many. Women account for 55 percent of the members, 65 percent of depositors and 70 percent of borrowers[9].

Micro finance institutions lend to both groups and individuals including MSE owners, while groups account for 80 percent of the total number of clients, individuals account for 80 percent of the total loan amount. The lending interest rate is normally 22 to 44 percent p.a. (2-4 percent per month).

Micro Finance Institutions Classified by the Central Bank

In 1999, the Central Bank (the Bank of Uganda) established its new policy for regulating micro finance institutions, deciding that the Government should be engaged only in improvement of their business climate without providing its own micro finance. At the same time, micro finance institutions have been categorized into four Tiers (1 through 4). (Please see Table 2-7.) While some of them provide micro finance directly to MSEs, others finance only other micro finance institutions, as in the case of some commercial banks under Tier 1.

Table2-7 Types of micro finance institutions (MFI)

Type	Financial Institutions	Number	Activity
Tier 1	Domestic or foreign-affiliated commercial banks	8 or so	・Loan to MFI: Stanbic, Standard Chartered ・Saving and ATM: Crane & Nile Bank ・Micro finance loan to groups and individuals: Orient Bank ・Saving, ATM, loan securing salary: Stanbic, Centenary Rural Development Bank (CERUDEB)
Tier 2	Credit institutions	1	Commercial Microfinance Ltd. (CMFL)
Tier 3	Regulated MFI taking deposit	3	FINCA, Uganda Microfinance Ltd. PRIDE
Tier 4	Other financial service providers	400 plus	・Performs MFI specializing in a single function ・Community-based organization ・Saving and loan Association ・Financial Service Alliance ・NGO-affiliated MFI performing more than one function

Source: USAID, "Microfinance Umbrella Program Study, June 2006, p.89.

Domestic/Foreign-Affiliated Commercial Banks and Credit Associations

As of February, 2003, 15 commercial banks (domestic and foreign-affiliated), 7 credit institutions and 2 development banks belong to this category. Though Bank's transaction cost is high[10], bank's are generally reluctant to lend to MSEs because of high transaction cost. A few of them like Barclays consider micro finance as a business chance, and are currently looking for MSE clients. CERUDEB and CMFL provide financial services specifically targeting MSEs. As was shown in Table 2-7, most commercial banks provide deposit-taking services on a retail basis and make credit to relatively large micro finance institution. In Uganda, there is no non-bank. Of key importance in the case of commercial banks is whether they readily convert Government bonds at hand into loan proceeds for the private sector.

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[9] Nannyonjo, Justine and James Nsubusa, " Recognising the Role of Micro Finance Institutions in Uganda". Bank of Uganda Working Paper, WP/04/01. Kampala, the Bank of Uganda, February, 2004.

[10] The Banking Act does not allow group guarantee as security. Micro finance transaction cost therefore is too high.

Polarization of Microfinance Institution[11]

In Uganda, many NGOs have been transformed into microfinance institutions. In recent years, microfinance institutions have been commercialized in order to sustain their operations. Donors are lending to them at a commercial interest rate, or providing microfinance institutions with partial guarantee to borrow from commercial banks. As a result, at present, all large finance institutions are entitled to borrow from commercial banks.

In 2003, in reflection of strong demand for deposit-taking services, the Micro Deposit-Taking Institution (MDTI) Act was enacted, legalizing micro finance institutions' deposit-taking. At this stage, however, only a few of them have taken deposit[12]. These MDI do not have periodical income, which results in the long-term restoration. Also, it is heavily affected by irresistible force, such as weather and disease. It tends to operate business in urban area where customers are able to borrow short-term credit, than in rural area where reliable customers are hardly found due to lack of customer information. This approach helps to curb cost and risk.

Due to tightened competition, there are MDI that attempt to expand business in rural area. On the other hand, there is a case like Uganda Microfinance Ltd. that operates business in urban area in Rwanda, Sudan and Blunji, by making use of experience of microfinance in urban area in Uganda.

Some MFIs transform the type of operation into SACCOS, while others transform its type similar to commercial bank. The central bank encourages MFI's transformation into MDI, but in order to achieve it MFIs must pass a rigorous screening process. To avoid this, many MFIs start operation of saving services within limited members, by transforming into SACCOS. From this point of view, it could be said that MFIs in Uganda appear to be polarized in either way.

Regional distribution of MFIs

Table 2-8 shows geographical distribution of MFIs in regions. There are many MFIs in western region where a number of activities rooted in agricultural village are easily found. On the other hand, most MFIs whose customers are mainly so called big clients locate in urban area. This explains that MFIs are expanding its outreach toward rural areas, with small amount of credit service.

Table2-8 Geographical distribution of MFIs

Region	No. of MFIs	% Rural	% Rural-Urban	% Urban
Central	291	37	15	48
Eastern	281	60	15	25
Western	494	59	17	24
Northern	360	65	15	20

Source: MSEPU and MFPED (2002)

1/ Rural refers to where focus is on the communities in the villages, rural-urban refers to where focus is on trading centres, and urban is where focus is on town coun cils, municipalities and city councils.

Source: Nannyonjo, Justine and James Nsubuga、"Recognising the Role of Micro Finance Institutions in Uganda". Bank of Uganda Working Paper, WP/04/01. Kampala、2004, P.11.

[11] Based on the interview of Mr Peter Rhode (Programme Director), Dr. Richard Roberts Agricultural Finance Advisor) and Mr Sliya Kanathigoda (Programme Advisor) from GTZ Uganda as of Feb 23, 2007.

[12] According to Mr Kshungyere Lance from Microfinance Outreach Plan, there are 140,000 clients in total of 4 MDIs. This shows that only few enterprises are able to get credit, although there are around 2,000,000 micro small enterprises, 27,000,000 citizens.

Other Financing Service Providers

In response to growing demand for financial services in rural areas, more SACCOS are being founded. Though SACCOS and NGOs take most of deposits from poor people in rural areas, they, as Tier 4 institutions, are not subject to deposit protecting regulations of the Bank of Uganda, and needs for the protection are being debated. There are about 1,300 SACCOS, whose revenues reached Shs. 30 billion (US$ 15 million).from 2000 to 2003. Reportedly, the Commission for Cooperatives, which should be supervising SACCOS, does not have skills, human resources and authority to close SACCOS facing financial difficulty.

Beneficiaries of Micro Finance

As Table 2-8 makes clear, there are about 935,000 depositors and 400,000 borrowers. Clients are mainly non-agricultural enterprises in urban or near-urban areas, borrowing Shs. 262,533 in an average. The group of large institutions has a large share. Consequently, many MSEs including those in rural areas, especially those whose credit-worthiness is lower than large enterprises, can borrow only a small amount with a short maturity, even if they are allowed to borrow. Such limited access constraints operation and expansion of their business. In the light of Table 2-7 revealing that depositors are twice as many as borrowers, safe storage of money is not easy in Africa, particularly in rural areas, and therefore deposit-taking is demanded more strongly than credit making. Particularly, in the context of improving access to financial services in rural areas, safe and convenient deposit-taking services are demanded by MSEs.

Table2-9 Beneficiaries of micro finance (estimated, 2003)

	Beneficiaries	Depositors
Large MFI	236,853	350,686
Centenary Rural Development Bank (CERUDEB) (Commercial Bank)	31,490	316,650
Commercial Microfinance Ltd. (Credit Institution)	8,072	26,429
Large SACCOS	15,170	36,324
Other MFI	69,789	132,830
Other Program	33,902	71,890
Total	395,276	934,809

Source: OGAP, ”Uganda Microfinance Sector Effective Review”, October, 2004, p.10.

Problems Faced by Micro Finance Institution

Micro Level

Problems on a micro level are absence of safe deposit-taking institutions in rural areas and low population density throughout the country. A solution being discussed is to improve access to deposit-taking services by means of a linkage between SACCOS and regulated institutions.

Mezo Level

Problems include needs for sound management of micro finance institutions, for consumer enlightening and improvement of a payment system. In recent years, a huge amount of aid proceeds has flowed into wholesale lending institutions, namely Tier 4 institutions, from donors, making negative impact on SACCOS.

Macro Level

Though the Micro Deposit-Taking Institution Act is expected to improve access to safe deposit-taking service, actually micro finance institutions are being commercialized only slowly. Problems include inadequate supervision and regulation over SACCOS and lack of transparency of regulations of new channels of credit making, both high tech. and low tech..

2.3.2 Technical Cooperation

Vocational Training

In response to demand from industry circles for “education matching needs in labor markets”, the Ministry of Education and Sports has introduced the Integrated Production Skills Course in primary and middle schools. In 2004, 10,000 pupils in 10 middle schools took this course. Since November, 2004, the Private Education Development Network (PEDN), an NGO, has cooperated for upgrading entrepreneurial skills of teachers and pupils in middle schools.

In an attempt to meet growing demand for vocational training/education in a high school, the Government has begun to increase Community Polytechnics (CPs), opening the UNDP-sponsored education in business start-up needed in rural areas and in business management in cooperation with the Ministry of Education and Sports, which introduced such education. As such education is still in its pioneering stage, it is yet to be disseminated widely.

Training in Technology and Entrepreneurship

In Uganda, 60 percent of MSE owners have not had any formal training, while few training schemes educate them in business start-up, which should cover leadership, time management, diversification for hedging business risks, business practices and dispute resolution[13].

Start-up business education programs being financed by many donors are designed to set aside 40 percent of participants for women. The allocation rule, however, has rarely been observed and, in rural areas, such programs are rarely executed. Reportedly, female entrepreneurs numbering 600 annually are being trained in business and its management in Kampala. Main training providers are the Uganda Gatsby Trust (GTZ), Enterprise Uganda and others. The Uganda Cooperative, Alliance and the Federation of Uganda Employers (FUE) are training providers in the private sector. The National Association of Women’s Organizations in Uganda (NAWOU) provides women entrepreneurs with training in business registration, networking, quality control and domestic/foreign marketing. In addition, Barclays Bank, a private commercial bank, also provides guidance respecting ways for a woman entrepreneur to transact with a bank, hoping to find new women clients.

Being a main provider of training in entrepreneurship, Enterprise Uganda sponsors Entrepreneurship Development (ED) Workshop lasting 10 days attended by 100 persons annually for tuition of US$115 per head.

Business Development Service (BDS)

In Uganda, the BDS for training of MSEs is not available, especially virtually not at all in rural areas. Comprehensive BDS accompanied by the micro finance is particularly scarce as most of them are related to repayment instead of business growth.

The Government has set up the Private Sector Development Corporations (PSDCs) in 4 places in the country, which are responsible for training in skills needed by local MSEs, education in entrepreneurship and the BDS. How they are actually executing their tasks is not known.

Major BDS providers are the FIT Uganda, Uganda Gatsby Trust Business Development Services, Enterprise Uganda, the Entrepreneurship Centre, which is Makerere University Business School (MUBS), and the Private Sector Funding Unit BUDS- Scheme.

FIT Uganda provides MSEs with a five-day BDS training workshop taught by private consultants. Ten percent of the attendants are women. The Uganda Gatsby Trust Business Development Services provides MSEs with mentoring services and visiting services to analyze problems of a recipient enterprise, presents a solution, draws up a business plan, supports marketing and helps them participate in trade fairs in both Uganda and foreign countries.

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[13] Louis Stevenson and Annette St-Onge, “Support for Growth-oriented Women Entrepreneurs in Uganda”, ILO, 2005.p.38.

Enterprise Uganda sponsors coaching and mentoring of MSEs, and follows up the EU-funded Entrepreneurship Development (ED) training. For a year, business councilors offer Business Health Check Services and Business Growth Needs Assessment. The EU also supports training/advisory services, which the UNDP started in 2001, targeting 300 small/medium enterprises with US$ 1 million funding. The program helps new entrepreneurs draw up a business plan. The EU further cooperates with the ILO in execution of the Expand Your Business Programme (EYB).

The Entrepreneurship Centre (MUBS) provides entrepreneurs and starting enterprises with business information—feasibility studies, strategic planning, management and education. The services include free-of -charge business clinic services in a way that entrepreneurs, in collaboration with a facilitator, look for ways to diagnose and solve problems faced by them, targeting 150 MSEs annually. Sixty percent of the clients are women.

Under the Business Uganda Development Scheme—Enterprise Development Support (BUDSEDS), the BDS provider and the MSE equally share the cost. Registered and already active enterprises are targeted. More than 3,000 persons of 350 enterprises in 37 Districts have already been benefited. Forty-five percent of them are women.

2.4 Donors' Support of MSE Promotion

2.4.1 Examples of Support of Micro Finance Promotion

Donors supporting the micro finance provide two kinds of assistance: one is to help NGOs transform themselves into micro finance institutions on a retail level, and the other is to improve regulatory frameworks for new micro finance institutions.

Joint Assistance

Donors and the Government cooperate along the lines of the five pillars of the PEAP[14].
According to evaluation[15] by the CGAP, the micro finance in Uganda presents a good benchmark for coordination among the Government, businesses and donors. During the execution of assistance programs, other donor's cooperation is often sought[16].

An example of such joint assistance is the Performance Monitoring Tool (PMT) designed to share knowledge in the best practices obtained during the follow-up investigation of performance of micro finance partners. The PMT was produced by the donors that provided assistance in the micro finance from 2000 to 2003—the AfDB, the EU, Norway, the UK, the USAID--, and was officially made available to all the donors in 2003. The PMT is designed to monitor and reveal recipient organizational performance rather than performance of each project, and in each quarter demonstarates good practices that are deemed useful to other donors.

Financing MSEs through Micro Finance Institutions

Since EU's policy shift in 1998, when the EU discontinued direct financing of MSEs and started to indirectly finance them through micro finance institutions, other donors have adopted the same prctice. Some donors partially guarantee borrowing by micro finance institutions from commercial banks.

In some cases, donor's funds for micro finance institutions are used for matching grant aid to those in remote areas through the basket funding. In these cases, donor's off-budget direct funding of NGOs in the past has been substituted in the process of MTEF.

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[14] "The Joint Assistance Strategy for the Republic of Uganda (2005-2009)" lists cases of cooperation among donors, corresponding to each pillar of the PEAP.
[15] GAP, "UGANDA Microfinance Sector Effectiveness Review, October, 2004.
[16] For example, when the DfID executed its project for reforms of the financial sector, it entrusted the USAID to manage its funds in consideration of USAID's comparative advantage in assistance for commercialization of micro finance institutions.

Encouraging More Reflection of Private Sector's Voice in Policy Making through the Alliance of Micro Finance Institutions

During the infancy of the micro finance practices, numerous foreign experts gave hand-on advice on the spot. Today, though experts are no longer positioned on the spot, many micro finance institutions maintain close contact with donors. Such contact led to donor's financial/technical assistance in the early period of their Alliance. Donors closely cooperate with the Alliance, and use their influence on the enactment of the Micro Deposit-Taking Institutios Act, which enabled micro finance institutions to take deposit.

Examples of Donor's Assistance

Germany

Germany's assistance combines technical assistance with reforms of the financial sector in the field of micro finance. The assistance not only targets micro finance institutions but aims to build networks and facilitate ties with other financial intermediaries. The emphasis is on encouragement of saving, as well as building of systems relying on local financial resources without depending on outside resources. The policy is to increase savings instead of subsidized lending to the poor. To the extent feasible, the German assistance combines support on micro, mezzo and macro levels. As for the micro level, the assistance is provided in the following three ways:

Establish a new section dealing with services for MSEs in existing banks (downscaling).
Facilitate service provision by existing micro finance institutions accommodating needs of large enterprises (upgrading)
Establish micro finance institutions meeting MSE's needs (greenfielding)

On the mezzo level, the assistance helps financial intermediaries cut transaction costs for lending to the MSE by supporting institutions that furnish information to money markets, such as credit guarantee agencies, rating agencies, loan guarantee agencies and the Alliance of micro finance institutions, as well as by empowering the agencies supervising micro finance institutions.

The German assistance includes the Financial Sector Development Project designed to support development of financial products for customer satisfaction, to help reform the sector, and to help empower organizations of the micro finance institution.

UNDP

In the framework of "Income Creation and Sustainable Earning for Living", the UNDP facilitates organizational empowerment in business skills, development of micro finance, and fostering of MSEs as a source of creation of employment and income. According to the Country Programme Document for Uganda (2006-2010), the UNDP plans to reduce poverty by means of micro finance and assistance for MSEs.

USAID

The USAID plans to provide MSEs with a package of activities including the micro finance and BDS, focusing on development of untraditional processed agricultural crops and their export. The main projects are:

PRESTO (private Enterprise Support Training and Organizational Development)
SPEED I and II (Support for Private Enterprise Expansion and Development)
Rural SPEED (Rural Savings Promotion and Enhancement of Enterprise Development)

The execution of these projects is contracted out to outside consultants or others on the basis of a "performance-based contract". Besides these three projects, a close linkage with USAID-sponsored projects in other sectors (for instance, agriculture) is enhancing effectiveness. The budget white paper in 2006 emphasizes the following fields:

・Technical cooperation for formulation of Uganda7s trade/investment strategies
・Empowerment of stakeholders of the core sectors for growth—coffee, cotton, fish, grain, oil seeds, cut flowers, dairy and tourism
・Expansion of agricultural credit and increase in savings by means of the Development Credit Authority Program executed in collaboration with five commercial banks and a deposit-taking micro finance institution

IFC
Through the Africa MSE Finance Program, the IFC facilitates transfer of know-how to banks lending to MSEs in the Sub-Sahara Region. The ultimate purpose is to raise quality of financial services for MSEs so that such services as trade credit and mortgage loan will be made available to them. During its initial 3 year execution, its favorable impact was recognized because of experts' focused guidance on the spot led by a resident advisor sent to each bank and of IFC's investment made in combination with the guidance. The IFC also assists improvement of small/medium firms' access to loan in collaboration with the IDA, which, belonging to the World Bank Group, makes credit on soft terms.

2.4.2 Examples of Support of MSE Promotion

Linkage between technical assistance and financial assistance—IDA-IFC linkage[17]
The IDA credit is made for capacity building of MSEs and financial institutions as well as for other technical assistance for the purpose of improvement of business surroundings. On the other hand, the IFC invests in financial institutions and micro finance institutions lending to MSEs, in an attempt to continue already successful capacity building in concert with the IDA credit. As such project has already been authorized for Nigeria, similar projects will also be executed in Madagascar, Kenya, Uganda, Tanzania, Ghana, Mozambique, Burkina Fas and Mali.

ILO: Promotion of small enterprises through a private radio station (public-private cooperation)
In Uganda, there are 64 radio stations, which broadcast in more than 25 languages. About 63 percent of households have a radio. Recognizing how the radio is important as a tool for furnishing advice or information, the ILO encouraged private radio stations to broadcast information on small-scaled business in 1999. Such broadcasting has provided platforms where debates take place the informal business sector can express views for lobbying. Since its inception, the ILO has supported 21 programs through 18 stations in 12 languages. Listeners to these programs are estimated at 7 millions. The ILO does not fund these stations, but the expenses are being met by advertising revenues.

ILO's contribution was that it has made radio stations become aware that the informal business people are important listeners to the radio. ILO's assistance includes technical advice and training in making and broadcasting such programs. Because these stations broadcast in a variety of language, they do not compete each other. The ILO therefore has supported many stations. The programs for small business report relevant research outcomes, and present live interviews or debates, forming a basis for further debate and analyses on policy issues influencing MSE's business. The radio stations speak on behalf of MSEs concerning their doubt about Government policies, and have impact on policy making. For example, when the Government banned export of fish caught in the Lake Victoria to the EU, a radio station broadcast a debate between representatives of the Government and processors/producers, leading to a subsequent solution. Another program accused tax collector's corruption and advocated reduction of other illegal activities.

Capital contribution to small/medium enterprises—Incofin Belgium
Incofin Belgium provides an opportunity to match needs of MSEs in developing countries for know-how and expertise of senior experts in developed countries. Senior experts' mission to developing countries normally lasts 2 to 3 weeks, funded by the Flemish Government, with which the EU is considering joint financing. Incofin encourages a non-financial linkage between small/medium

[17] (http://www.undp.org/psd-toolkit/ld_resources3d.html)

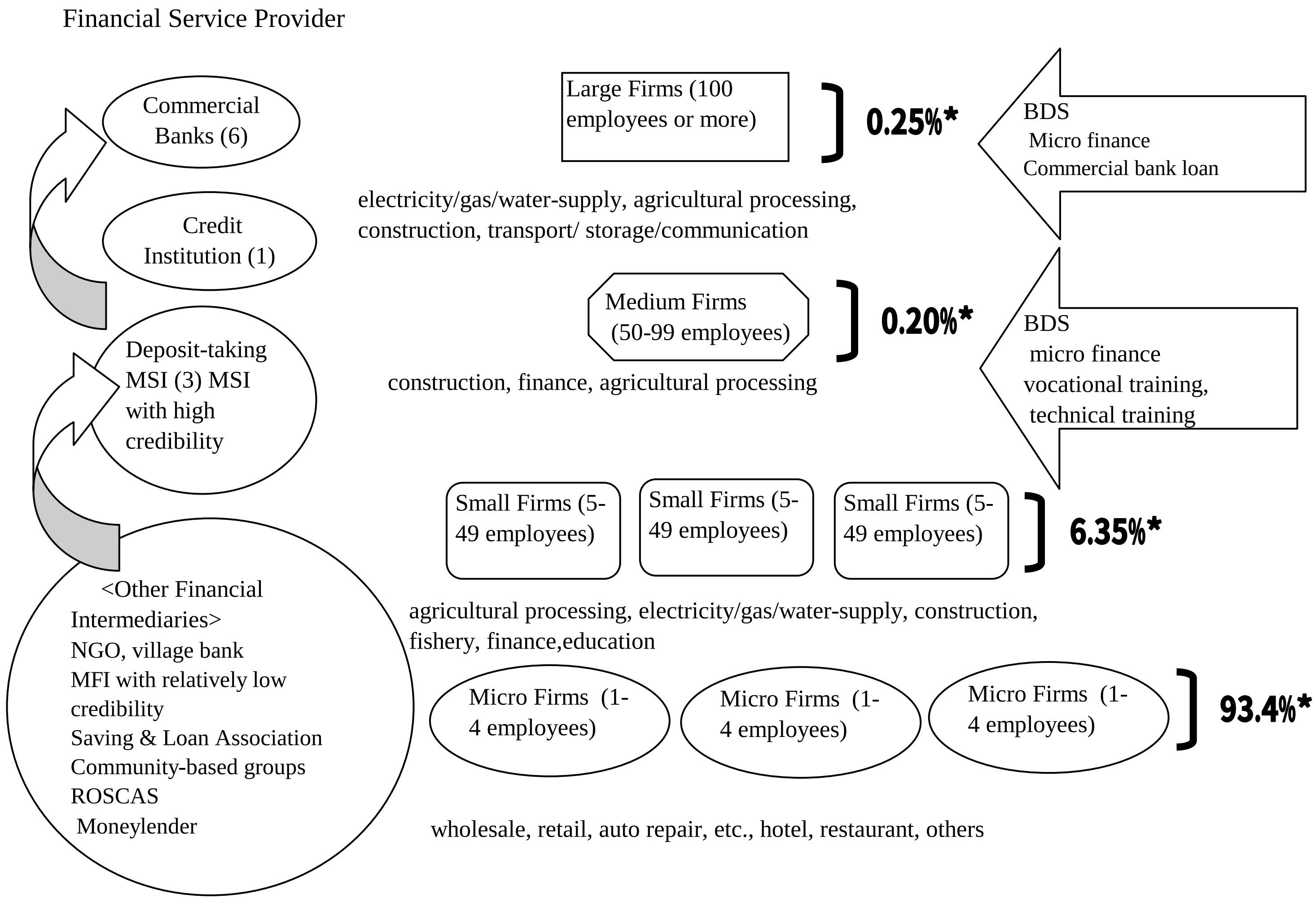
enterprises in developing countries and those in developed countries, aiming at their sharing of know-how in management, marketing and technology.

Incofin also provides small/medium enterprises with a small amount of equity investment and becomes a small shareholder of companies that are engaged in agro-business, metal processing, computer services and hides/skin manufacturing. Incofin’s criteria for making such investment are:

・Quality and credibility of local partners
・Relevance to future growth
・Rigorous analysis of the business plan
・Profitability and sustainability
・Reporting and auditing
・Withdrawal in accordance with prior agreement

2.4.3 Relationship between Supporting Programs and MSEs

On the basis of the remarks made above, Figure 2-2 depicts the relationship between MSEs and supporting programs for them. With the larger number of employees than large/medium enterprises, MSEs have limited access to these supporting programs. During the field survey, more up-to-date information will be collected to know in details how MSEs in rural areas actually access to these assistance programs and how much benefits are being derived.



*Note: The share of each bracket of enterprises is based on the number of employees, and does not reflect values of assets or sales.

Figure 2-2 Relationship between MSEs and assistance programs

Chapter3 Ghana[1]

For nearly two decades from 1985 to 2003, Ghana grew at a high average annual rate of 4 to 5 percent, while the inflation from 1997 to 2002 averaged at 23.5 percent. As both the fiscal deficits and international current account deficits were 8.8 percent, Ghana's macro-economy suffered the so-called Twin Deficit. After the new administration came into power in 2001, the macro-economic performance has been relatively stable as evidenced by the lower inflation rate, stable exchange rate and increased foreign exchange reserves. The fiscal situation, however, is still strained, because of the international debts accumulated during the earlier period characterized by heavy reliance on foreign aids. The subsequent GDP growth has been more satisfactory, up 5.8 percent both in 2004 and 2005. However, the growth has been caused mainly by the primary industry such as cacaos and wood, whose prices are subject to fluctuations in international markets. As the domestic manufacturing industry is still underdeveloped, the economy heavily depends on imports.

3.1 Status of Micro and Small Enterprises

As the industrial structure hampers faster economic growth, its distribution into sectors and regions will be looked at below.

Sector Distribution
The three sectors—agriculture, industry and service—contributed to GDP in 2004 by 37.9, 24.7 and 28.7 percent respectively. These percentages have not changed much since 1997. (Please see Table 3-1.)

Table3-1 Contribution of each sector to GDP (%)

	1997	1998	1999	2000	2001	2002	2003	2004
Agriculture	36.6	36.7	36.5	36.0	35.9	35.9	36.1	37.9
Industry	25.4	25.1	25.2	25.2	24.9	24.9	24.9	24.7
Mining, Quarrying	5.7	5.8	5.7	5.6	5.3	5.3	5.2	4.6
Manufacturing	9.2	9.1	9.2	9.2	9.1	9.2	9.1	8.8
Electricity, Water	2.9	2.5	2.6	2.8	2.9	2.6	2.5	2.6
Construction	7.7	7.7	7.8	7.9	7.9	8.0	8.0	8.8
Service	28.7	29.0	29.0	29.7	29.9	30.0	29.8	28.7
Wholesale & Retail Trade, Restaurant/Hotel	6.6	6.7	6.8	6.8	7.0	7.0	7.0	6.8
Sub-Total	90.7	90.8	90.8	90.9	90/7	90.7	90.9	91.3
Indirect Taxes	9.3	9.2	9/2	9.2	9.3	9.3	9.1	8.7
GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bank of Ghana, "Statistical Bulletin".
Note: Though there are a few inconsistencies in the numbers, they are cited as are in the original document.

Normally, as the economy expands, the manufacturing and services sectors expand their shares in the economy. Ghana's industrial structure, however, has hardly changed. Such stagnation is consistent with the dominant share of agricultural workers in the total working population, and slow expansion of employment in industry and services. The policy therefore should address to this slow industrial restructuring.

To examine the growth of each sector from 2000 to 2004, the breakdown of the GDP growth into the 3 sectors is listed in Table 3-2. The industry has expanded a little more slowly than the other sectors, because the trade liberalization triggered rapid inflow of cheap imports, while prices and quality of domestic goods have not been competitive. In consideration of such situations, the Government recognized it necessary to streamline the legal framework respecting the trade[2].

[1] Currency unit of Ghana is Cedi(GHC), GHC1=¥0.013.
[2] Growth and Poverty Reduction Strategy 2006-2009, p16.

Table3-2 Breakdown of GDP growth into sectors

Sector	2000	2001	2002	2003	2004	Average
Agriculture	2.1	4.0	4.4	6.1	7.5	4.8
Industry	3.8	2.9	4.7	5.1	5.1	4.3
Service	5.4	5.1	4.7	4.7	4.7	4.9
GDP	3.7	4.2	4.5	5.8	5.8	4.7

Source: Ghana Statistical Service

In 2004, agriculture recorded remarkable fast growth. Though natural conditions like weather may have some bearing, it was achieved because of a series of reforms. First, farmers' access to farm land was improved: their tillage increased from 5 percent in 2002 to 12 percent in 2004. Second, more crops were processed: farmer's access to processing equipment increased from 24 percent in 2002 to 42 percent in 2004. Third, culturing expanded, exceeding the targeted 450 ha due to capital investments and technical assistance. However, only one out of 120,000 farmers uses a tractor, and only 5 percent or even less farmers use a reaping machine.

Size Distribution of Enterprises

In Ghana, the size of enterprises is defined as in Table 3-3.

Table3-3 Definition of micro, small and medium enterprises

Size	No. of Employees	Assets (excluding land and buildings)
Micro	1—5	Cedi 78 million (US$ 10,000) or less
Small	6—29	Cedi 780 million (US$ 100,000) or less
Medium	30--99	unknown

Source: (a) National Board for Small Industries (NBSSI)
(b) Danish Ministry of Foreign Affairs, "Component Three of Business Sector Programme Support SPS", September, 2003.

The share of each sector is now reviewed. According to available information, 70 percent of the working population work for micro enterprises employing 5 persons or less[3]. Most of micro and small enterprises (referred to as "MSE") belong to the informal sector, which reportedly accounts for 40 percent of the national economy. They have not registered, do not have bank accounts, and do not have a title to land. A reason why they do not register may be their preference for tax evasion, but cumbersome administrative procedures and poor access to financial services are hampering their evolution into the formal sector. The Government therefore is stepping up its efforts to improve regulatory climate and policy making to make business climate more conducive, because evolution of informal enterprises into the formal sector would lead to business growth and job expansion.

Sector Distribution

As explained above, most of the working populations are managing MSEs. Table 3-4 lists the sector distribution of employees. While between 1988 and 2003, manufacturing employees declined nearly to a half, the trade sector employed more. Such contrast was perhaps caused because the international trade, mainly importing, boomed due to assistance by the Government and foreign donors despite stagnant manufacturing.

[3] According to "the Private Sector Development Strategy 2004-2008", 70 percent of Ghana's enterprises are micro enterprises.

Table3-4 Sector distribution of employees (%)

	1998	2003
Agriculture	55.0	44.5
Trade	18.3	22.5
Manufacturing	11.7	6.4
Others	15.0	26.6
Total	100.0	100.0

Source: CWIQ 1997 & 2003.

Regional Disparity

Though the population of very poor people declined from 36.5 percent in 1992 to 26.8 percent in 1999, the regional income gap—between the urban area and rural area as well as between the Northern regions and Southern regions—and the vocational income gap became wider. Especially, in the Northern Savanna regions consisting of the Northern Province, Upper East Province and Upper West Province, where agriculture is the dominant means of living, the poverty is a very serious problem and its alleviation is the major task for the Government. To this end, the Government promotes farm mechanization, planting of unconventional crops and technical/managerial guidance to farmers. Within agriculture as well, there is an income disparity between producers of exported crops and those of food crops. Such disparity suggests that the export promotion policy in the context of local industry promotion is slowly but measurably increasing farmer's income but has benefited only a small group of them.

Economic Activities in Rural Areas

Most farmers earn some non-farm income. NGOs and Microfinance providers provide financial services to farmers. Most of their clients in rural areas are women, who apparently are economically active. Their main activities, however, are currently confined to MSE management/operations. Though the Government attributes this limitation not to their gender but to their low literacy, a main reason appears to be inadequate diversification of the local economies. It is therefore recognized necessary to promote local industries by means of more wisdom including effective use of natural resources. Specifically in rural areas, a higher priority should be given to ensuring viability of MSEs' businesses, including those run by individuals, through upgraded food-processing, dissemination of irrigation facilities and development of agricultural products, instead of expansion of the small/medium enterprises (referred to as "SME").

Constraints on Growth and Management

According to PEF's survey[4] in 2003, major constraints on growth faced by MSEs are informal business climate, lack of mutual trust, shortages of capital and inadequate managerial skills. Meanwhile, SMEs' constraints are lack of export promotion policy, high tax rates, unsatisfactory land registration procedures, inefficient incentives, limited funds, limited chances of training and other problems. Depending on the firm size, different constraints are pointed out. In rural areas, major constraints concern equipment, infrastructure, technology and access to various kinds of services. In the light of these findings, different kinds of assistance are demanded depending on the location, sector and firm size. Therefore, priority setting is necessary among these different needs.

Founded in 1985, the National Board for Small Scale Industries (NBSSI) is mainly responsible for implementing SME promotion policy. The NBSSI has 14 local offices in major cities, and operates the Business Advisory Center (BAC) in 110 Districts comprising 80 percent of the country's Districts. The local office of the NBSSI provides loan and financial services at a 20 percent interest rate, requiring an equal repayment every month to reduce borrower's burden, and sponsors business/management and other technical assistance. Meanwhile, the BAC provides only technical support including information supply, counseling, managerial advice and training.

[4] David Irwin, "Supporting an Inclusive Private Sector Engagement in Public Policy Formation and Implementation in Ghana", August, 2003.

The NBSSI plans to open BACs in all the Districts by end-2006.

3.2 Outline of MSE Promotion Policy

3.2.1 Framework of MSE Promotion Policy

Significance of MSE Promotion in GPRS II

In 2002, the Ghana Poverty Reduction Strategy (GPRS I) was formulated, and regarded as virtually the national development plan. The purpose of the GPRS I was to attain the Millennium Development Goals (MDG). Following these plans, the Growth and Poverty Reduction Strategy (GPRS II) made public in 2005 emphasizes growth more strongly, while its ultimate purpose is poverty reduction as in the case of GPRS I. The Government aims to increase income per capita to US$ 1,000 by 2015, comparable to a middle-income country, emphasizing promotion of economic development. In this context, of the utmost importance is to activate the private sector in all the three sectors--agriculture, manufacturing and services.

The GPRS II expects the following 4 policies to lead to economic growth:

- Activate the private sector: improve access to markets, both in international and domestic, and make domestic markets more efficient.
- Improve business/investment climate in the agricultural sector: modernize agriculture and promote exporting sectors.
- Support the service sector: transportation, energy and science/technology.
- Develop other sectors supporting economic growth: develop information and communication technology (ICT) and mining.

For MSE promotion aiming at vitalization of the private sector, the following 6 policies are emphasized:

- Formulate a plan to phase out subsidies from the Government to firms.
- Formulate the Best Practice Framework that meets standards set for each size group of enterprises.
- List, for comparison, enterprises that have satisfied the Best Practice Framework.
- Formulate systems for effective monitoring/evaluating and sharing information on enterprises
- Tighten links between the informal sector and formal sector.
- Disseminate the Business Development Service (BDS) to support micro, small medium enterprises (referred to as “MSME”).

In making the growth-focused GPRS II, the Government identified below-listed barriers hindering empowerment of the private sector, in the light of the experience during the implementation of the GPRS I:

- Existing laws and regulations are complicated and opaque.
- Access, especially women’s access, to financial services is limited.
- Though interest rates have been stabilized, they continue to be high.
- The Government’s capacity is not adequate to lead, execute, monitor and evaluate the private sector development.
- MSE’s policy needs are not clearly identified.
- The informal sector, where women and youths are the majority, is unstable and vulnerable.
- The formal sector and informal sector are not linked closely.
- The social security systems are not available for workers in the informal sector.
- The institutional and regulatory framework for small enterprises is not well developed.

To address such problems, through the GPRS II, the Government plans to formulate and implement policies for improving the macro-economic climate involving stakeholders in the private sector, to reform the financial sector to readily satisfy needs of the private sector, to reform the public sector including the tax system, and to review the legal/regulatory framework for any necessary amendment.

Besides empowerment of the private sector, the business/investment climate of agriculture should also be improved in a way it will lead to the economic growth. Especially important is to link agriculture closely with rural MSEs. The problems related to agriculture are as follows in the light of the implementation of the GPRS I :

- Weather and soil are not favorable.
- Farmer’s work is subject to external impact and lacks stability and sustainability.
- Irrigation facilities are not yet used extensively.
- Women and MSEs lack capital and have poor access to financial services.
- Livestock has low productivity and not resistant to disease.
- Many animals fall ill and disease investigations are inadequate.

To rectify them, the Government plans to improve the legal/regulatory frameworks relating to, among other things, acquisition of a title to land, to promote and disseminate use of agricultural infrastructure like irrigation, to promote investment in agriculture, to promote selective crop development, to improve animal breeds, to mechanize farming and improve access to machines, to develop infrastructure for culturing, to step up extension services, and to rehabilitate deteriorated farm environment.

In these manners, for the purpose of activation of the private sector including the industry and agriculture, the GPRS II attempts to make the climate conducive to MSE’s activities including improvement of the legal/regulatory frameworks. These policies are implemented by the Ministry of Trade, Industry, Private Sector Development and President's Special Initiatives (MOTI/PSD/PSI) and the National Board of Small Scale Industries (NBSSI). The MOTI/PSD/PSI is mainly responsible for improvement of business climate and investment/trade climate, while the NBSSI is for the Rural Enterprises Project on the grass-root level with IFAD’s funding. REDP’s main activities are:

- Train in reading/writing and arithmetic.
- Organize business orientation seminars.
- Assist in basic technologies such as soap-making and mushroom growing.
- Train in MSE’s managerial skills and provide counseling.
- Intermediate rural MSE’s wholesaling to markets and to large stores in cities.
- Furnish information.

These measures are being taken mainly by BACs managed by the NBSSI. In future, more efforts will be made to promote sub-contracting between MSEs and large firms, by setting up quality control centers, studying profitability/feasibility of small investments in commerce and industries, and by bringing up young entrepreneurs.

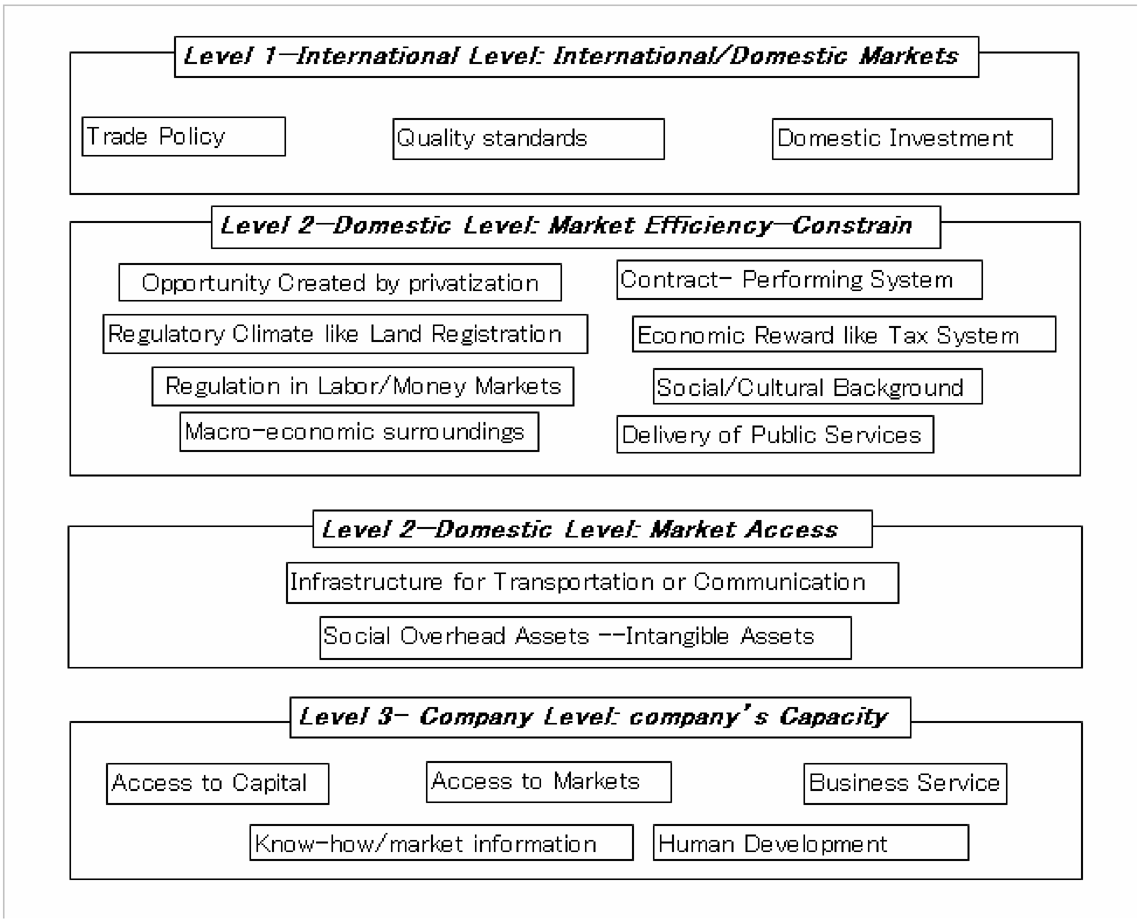
3.2.2 Components of MSE Promotion Policy

The Private Sector Development Strategy 2004-2008 (PSDS) was formulated to make clear necessary policies aiming at faster economic growth targeted by the GPRS II. Its goal is to achieve “the Golden Age of Business”, whose major objective is to improve market mechanisms. As explained earlier, this objective necessitates to sharpen competitive edges of enterprises by raising productivity, developing products, investing in plants/equipment and developing technologies in a way to upgrade the industrial structure, which tends to maintain the status quo.

Besides, since the dominance of households managing MSEs in the informal sector stands in the way of growth, job opportunities must be created through evolution of MSEs into the formal sector, in addition to other varieties of means. Namely, the PSDS sets forth the following 4 concrete tasks:

- Sharpen competitive edges in both domestic and international markets.
- Make the domestic markets more efficient and improve MSME's access to markets.
- Empower enterprises.
- Strengthen Government institutions, enabling them to make, execute, monitor and evaluate policies for activation of the private sector.

The Figure below sums up the factors affecting the 4 goals mentioned above.



Source: "Private Sector Development Strategy 2004-2008"

Figure3-1 Impediments to growth of private sector

The third goal, empowerment of enterprises, has bearing on promotion of the SME. As shown in the Figure above, the SME suffers such syndromes as low-graded production technologies, lack of marketing know-how and poor access to capital. To rectify these unfavorable conditions, business support or training should be stepped up and market mechanisms should be streamlined to improve their access to loan and markets.

In consideration of such factors, the keys to activation of the private sector are strengthening of industries, increasing their competitiveness and increasing business opportunities of women, who comprise the majority of micro firms' owners.

- **Dominance of conventional farming and other primary industries**

As described above, more than 30 percent of GDP is generated by agriculture, where 60 percent of working populations are engaged. The primary industries earn more than 85 percent of exports, while processed crops with higher value added contents are rarely exported. Consequently, processing of primary goods should be encouraged. Specifically, more efforts should be made to develop crops such as pineapples, palm oil, processed cassava, wood products, salt and tourism-related goods. However, low prices, low wages and slow growth in demand stand in the way of the planned development.

- **Inadequate competitiveness of SME**

The majority of SMEs target solely the domestic markets. Poor access to international markets discourages enterprises to raise productivity and upgrade quality because of isolation of domestic markets. Reportedly, firms in Mauritius are more efficient than Ghanaian firms by the factor of 4.

Without development of micro enterprises comprising 70 percent of the total enterprises, the country's economy would never expand. Their majority belongs to the informal sector, has not registered their titles to land, and has limited access to financial services. To expand these enterprises, the Government aims to remove the barriers to enable them to grow into the formal enterprises. At present, reforms of administrative frameworks such as the tax scheme are being considered.

- **Women's entry into business**

Reportedly, about two-thirds of non-farm MSEs are managed by women, so are 7 percent of SMEs, provided that a half of women-run SMEs are co-managed by their spouses[5]. Most of the women managers do not feel any managerial handicaps arising from their gender. Problems may result from women's low literacy rate caused by their poor access to education. For MSE promotion, therefore, in addition to improvement in business climate, social services including education and infrastructure should be made more readily available to them.

Table3-5 Comparison of literacy rates (%)

	1898/99	2003
Male	63	66.2
Female	36	42.5
Urban Area	63	69.9
Rural Area	40	40.1

Source: CWIQ 1997 $ 2003

3.3 Assistance for MSE

3.3.1 Micro Finance

Ghana's micro finance is active, driven by the private sector such as NGOs, non-banks, credit unions, RUSCAS (Rotating Savings and Credit Associations), Susu collectors and others. The financial sector consists of: (a) the formal sector supervised by the Bank of Ghana including commercial banks, local banks and the Credit Union Association (CUA), (b) the semi-formal sector supervised not by the Bank of Ghana but by the Ghana Cooperative Credit Union Association, and (c) the informal sector, which is said to be the most active. Looking at the outreach by these organizations, the service provided by Susu and credit unions are targeting people above average among the poor[6] (Figure 3-2). On the other hand, NGOs and Rural Community Banks offer services to the lowest level amongst the poor.

[5] Ghana Statistical Office: Statistics on Living Standard in Ghana (2000)
[6] Cunsultative Group to Assist Poor (CGAP) developed the Microfinance Assessment Tool (MPAT), which creates index formula of the poor into the five levels (Lowest/Below average/Average/Above average/Higher).

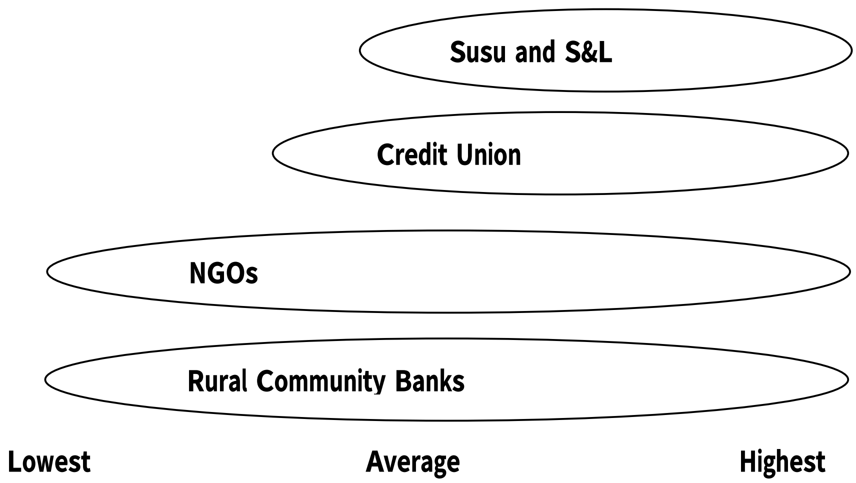


Figure3-2 Outreach by organizations

Profile of NGO-MFI (Micro Finance Institution)

In 2006, private banks consisted of 6 commercial banks, 122 local banks or community banks, and 37 non-banks[7]. As few of them have micro finance organizations to serve rural areas, the majority of MFIs are NGOs. At present, among the largest 5 MFIs, 3 are NGOs and the other 2 are non-banks. Notably, Sinapi Aba Trust, which lends to the largest number of clients, was established in 1994 as a member of the Opportunity International Network (OIN), which is an internationally active NGO based in Chicago and supports micro firms' start-up in 40 countries. Besides the micro finance, OIN's mission is to help MSEs develop, providing a variety of services including management training, monitoring/supervision, social services and consulting. In September, 2004, OIN founded Opportunity International Sinapi Aba Savings & Loan Ltd. as a non-bank licensed by the Bank of Ghana to take advantage of its 10-year experience in the micro finance business and clients' confidence acquired in these years. In OIN's view, Ghana's poor entrepreneurs need to be supported by a formal financial institution capable of making continuous economic impact on them. This institution is now the second largest MFI in Ghana as listed in Table 3-6.

Table3-6 Major MFIs in Ghana

Name	Founded in:	Legal Status	Regulated or Not?	% of MI in Business	Number of Clients	Borrowings per Head US$	Number of Depositors	Deposits per Head US$
Christian Rural Aid Network	1994	NGO	No	61-70	5,064	102	2,230	58
Kraban Support Foundation	1996	NGO	No	91-100	6,822	57	0	na
Opportunity Int'l—Sinapi Aba Savings. & Loan Ltd.	2004	Non-Bank	Yes	91-100	26,310	181	7,344	247
ProCredit SLC Ghana	2002	Non-Bank	Yes	91-100	7,071	1,270	48,054	175
Sinapi Aba Trust	1994	NGO	Yes	91-100	34,336	91	1,194	0

Source: Based on: Mix Market, http://www.mixmarket.org/

[7] Based on data of the Bank of Ghana on registered banks/organizations.

Sinapi Aba Trust uses 3 lending methods. The first method is lending to individuals, which resembles commercial bank's method except that pre-borrowing business/managerial training and orientation are required, and that, instead of a collateral, personal guarantee is required. Lending to a group is the second method, which Grameeen Bank also uses. In this case, the maturity is usually as short as 4 to 6 months. The third method is lending to a small number of selected groups formed by those who have borrowed from trust banks and fully repaid their debt at least 4 times. The third method is designed to flexibly meet borrower's needs respecting the lending amount and maturity. Operating through 13 local offices, OIN has a wide variety of borrowers including firms of such sectors as manufacturing, food-processing, agricultural retailing, trade and services.

Financial services as well as BDS provided by NGOs bring about some merits such as the expansion of outreach toward the poor and the provision of low cost services. On the other hand, it is also pointed out that the market is distorted by this situation, and this deprives opportunities of private service providers to grow up.

Profile of Credit Union

The number of credit unions increased to about 500 by the mid-1970's since the Cooperative Unions Association (CUA) was established in 1968. As their capital depleted because of a high inflation rate, only a half of them have survived. As of end-2002, CUA-registered unions total 273 with 192,367 members combined.

Table 3-7 shows size and distributions of Credit Unions. It reveals that credit unions locate mainly around cities, but they are also in the north province where the largest number of the poor live[8].

Table3-7 Size and distributions of Credit Unions

	No of Soeities	Total membership	Savings	Loans Outstanding	Total Assets
Greater Accra	59	28,739	81,488,699,708	47,116,883,724	101,057,725,916
Ashanti	51	56,024	113,473,385,040	75,583,864,569	151,211,554,077
Brong Ahafo	23	19,492	33,779,483,510	27,925,594,060	45,064,524,775
Central	25	23,278	66,708,458,757	49,780,052,162	77,329,868,565
Eastern	21	10,899	33,364,205,397	24,468,367,377	39,547,666,847
Tema	26	11,147	43,142,182,987	33,681,681,231	67,273,010,740
Northern	14	7,377	8,819,773,284	7,537,201,260	11,722,999,122
Upper East	9	2,565	4,780,334,650	4,595,639,197	7,358,843,126
Upper West	12	6,922	8,282,338,575	6,599,377,451	10,705,623,238
Volta	17	12,135	27,722,997,556	19,007,248,060	36,063,456,980
Western	16	13,789	37,250,545,637	28,977,045,211	49,177,212,572
Total	273	192,367	458,812,405,101	325,272,954,302	596,512,485,958

Source: Ghana Co-operative Credit Unions Association (CUA) Ltd.

Profile of Susu

In Ghana, the informal sector is vigorous. Especially, a collector of individual's money called "Susu", the Rotaiong Savings and Credit Associations (ROSCAs), and so-called "clubs" for saving and loan play an important role in development of micro finance products, taking advantage of their useful experience. Notably, most of recently-developed products are those for saving. As Susu operates in the following 4 manners, MFIs are expanding their micro finance business through their arms of Susu organizations:

Susu collector: At the end of each day, the collector visits clients and lets them deposit what they have earned during the day. At the end of the month, Susu returns the collected money deducting

[8] Reportedly, about 60 percent of poor people live in the Northern Savanna regions.

the commission. Such practice has been followed by MFIs, which make small credit and insurance services in combination of this function.

Susu association: The association uses 2 kinds of operations. The first method is called "ROSCA", where the association takes deposits from its members and lends to each member one after another. The second method requires its members to deposit from time to time in anticipation of special needs like ceremonial occasions.

Susu club: The club combines the 2 methods described above, where the members regularly deposit pre-determined amounts of money for a pre-determined period, and pay a commission. The depositor is entitled to borrow anytime before the end of the period.

Susu company: Susu companies were mostly registered toward the end-1980's. The members make deposit through the conventional Susu collector, and are entitled to borrow after the required minimum deposits have been made.

It is estimated that there are approximately four thousand Susu collectors. Out of them, 1096 collectors register in the Ghana Cooperative Susu Collectors Association (G.C.S.C.A). Registration brings the merit of provision of ID card, certificates, and uniforms, in return with the fee payment of 100,000cedi. These official certificates help Susu to acquire the reliance from customers. Also, it allows the government to control the system of the informal sector.

The partnership between Susu and the Barclay bank contribute the transition of Susu towards the semi-formal sector. The Barclay bank determined to have a partnership with Susu a year ago, considering Susu's high recovery rate. Susu deposit money collected from their customers to the bank through the association, in return with receiving the credit of 1 billion cedi at the most. By this, the Susu's customers become able to borrow enough amount of money through Susu collectors.

There are several reasons why MFIs use the Susu schemes. First, because the Susu collector knows clients' information and has close local connections, the MFI can get new clients by providing potential clients like low-income women with better access to financial services through the collector. Moreover, in addition to lending, the Susu scheme takes deposits to meet local people's demand for such opportunities. MFI's business-expanding activities through the Susu scheme, as they turn out, help the active informal sector form a linkage with the formal sector.

Profile of MASLOC (Microfinance and Small Loan Centre)

In order to support these Microfinance activities, the government established the Microcredit fund of US$70million and places them under the control of MASLOC (Microfinance and Small Loan Centre). MASLOC lends the money to the microfinance providers, and promotes improvement of the access to adequate financial services in rural areas. Another mission of MASLOC is to prepare the Microfinance policy. It is submitted to the cabinet and will be executed in April 2007. The draft of this policy consists of six chapters as follows.

Chapter 1: Background to Microfinance
Chapter 2: Key Stakeholders of Microfinance
Chapter 3: Policy rationale and challenges facing the sub-sector
Chapter 4: Policy framework
Chapter 5: Institutional Framework and Implementation arrangements
Chapter 6: Conclusion

The policy is expected to simplify the administrative procedure and to improve the monitoring system.

Profile of GHAMFIN (Ghana Microfinance Institutions Network)

GHAMFIN organizes the network of the following five types of Microfinance providers.

・Association of Rural Banks (Rural Banks and Community Banks): 122

・Ghana Saving and Loans Associations: 12

・Credit Union Association: 272

・Association of Financial NGOs: Fixed members are approximately 40. Whole number is unknown.

・Ghana Cooperative Susu Collectors Association: Approximately 3000. (1016 people officially register in the association.)

Followings are the main activities of GHAMFIN.

1) Training

GHAMFIN conducts training services for microfinance providers in cooperation with donors. SNV (Dutch NGO), GTZ, UNDP, ILO and K-International (International NGO) periodically provide technical and financial support. GHAMFIN also receives support in project basis from donors. For example, cooperation toward the Rural Financial Services Project of IFAD brings fund for the GHAMFIN.

2) Policy recommendation

GHAMFIN proposes a policy recommendation especially to the Microfinance Unit of Ministry of Finance.

3) Monitoring

GHAMFIN monitors the activities of participating organizations in the network.

4) Provision of information

GHAMFIN sets up a resource center, and provides information about microfinance activities.

3.3.2 Technical Assistance

The technical assistance consists of: (a) the macro level assistance such as government-sponsored capacity building and policy-making assistance, (b) the assistance which provides groups of medium-sized companies in the commerce, service or manufacturing sectors with training and technical development services, and (c) the assistance targeting poor people in rural areas for improvement of their living standards. Described below is a variety of activities by major donors:

Improvement of Laws/Regulations and Business Climate

The programs sponsored by the JICA, UNDP, UNIDO, USAID, World Bank, GTZ and AFD emphasize economic growth based on their premise that enterprise' growth will create jobs and eventually reduce poverty. The UNDP points to the following 6 themes:

1) Capacity building of the Ministry of Trade & Industry.
2) Campaigns to support the private sector and to promote dialogue.
3) Capacity building for formulation of plans to promote SMEs.
4) Promotion of export.
5) Support of women or young entrepreneurs.
6) MFI's capacity building.

The last theme, MFI's capacity building, aims to empower MFIs in collaboration with BDS providers and the Ministry of Finance and Economic Planning. The objectives of the USAID-sponsored project (2006-2010), designed to sharpen competitive edges of the private sector, are improvement of the business climate and capacity building of SMEs, hopefully leading to export promotion. The following 3 concrete means are being used by the USAID for this project:

Improve laws and infrastructure: stabilize the macro-economy, facilitate financial intermediation, and make markets flexible (make the labor law flexible, and simplify cumbersome procedures

and cut costs needed for start-up in the formal sector).
Assist companies' business plan making for export promotion: conduct research in foreign markets, transfer technologies for development of new products matching market needs, make a business plan, help raise equity capital, and improve the business climate.
Build capacities of farmers, MSEs, exporters and export-related agencies: promote partnership between makers and foreign-affiliated firms, strengthen competitive power in foreign markets by enhancing marketability.

The UNIDO executes a pilot project that promotes clusters in the industry at Acra. It expects that clusters help small enterprises to be able to handle a large number of orders. Currently, there are 10 apparel manufacturing enterprises that join in the cluster. The range of the number of employees in these organizations is from 3 to 20. In northern province, sheer butter is under planning to apply the pilot project. It is recommended for the micro and small enterprises to register the cluster. NBSSI is not in charge of maintaining infrastructure.

The AFD and JICA execute relatively new projects on the micro level like promotion of SMEs or MSEs instead of climate improvement or policy making. In order to provide grass-root groups and individuals with innovative and trustworthy financial/technical support, the AFD set up the Integrated Productivity and Development Centre (INPRODEC) in 2001. The targeted fields are extensive, consisting of food processing, ICT (Information and Communication Technology), salt processing for export, production of clothes and handicrafts for export. The JICA is executing a trial program designed to activate local industries in urban areas through capacity building of BDS providers. The JICA also provides technical assistance for product development and processing in the Northern regions inhabited by numerous poor people.

Farm Credit and Technical Support

IFAD's project aims to benefit poor people more directly than other projects aiming at improvement of policy/business climate. Its currently executed projects are the Rural Financial Service Project (RFSP) and Rural Enterprise Project—Phase II. Their main components are, as listed below, to help improve poor farmer's access to financial services and expansion of micro firms.

1) Improve access, especially women's access, to financial services.
2) Strengthen capacity and services of local banks, etc.
3) Improve rural credit schemes.
4) Improve business practices.
5) Transfer and promote technology.
6) Form partnership and promote policy dialogue.

The IFAD also executes the Northern Region Poverty Reduction Programme and the Root and Tuber Improvement and Marketing Programme. As distinct from other projects, these two projects are to directly increase incomes of poor people in rural areas. In more concrete terms, the projects consist of: (a) agricultural development focusing on sustainable means of living including research and development in cassava as well as its marketing, (b) development of community infrastructure, and (c) community empowerment on the grass-root level.

BDS providers are actively helping the private sector in technical fields. As shown in the Table below, 12 BDS providers, using the micro finance scheme, have registered at various networks, corresponding to about 10 percent of the total number of micro finance organizations. Among them, Technoserve and EMPETEC Ghana Foundation are the largest. The former serves 125,086 clients through its 8 branches, while the latter serves 1,117 clients through 3 branches. The difference between them is that the former is specialized in agriculture, while the latter is in trade/commerce.

Table3-8 is to look at the regional distribution of the access to financial/technical assistance.

Table3-8 Regional distribution of organizations providing financial/technical assistance

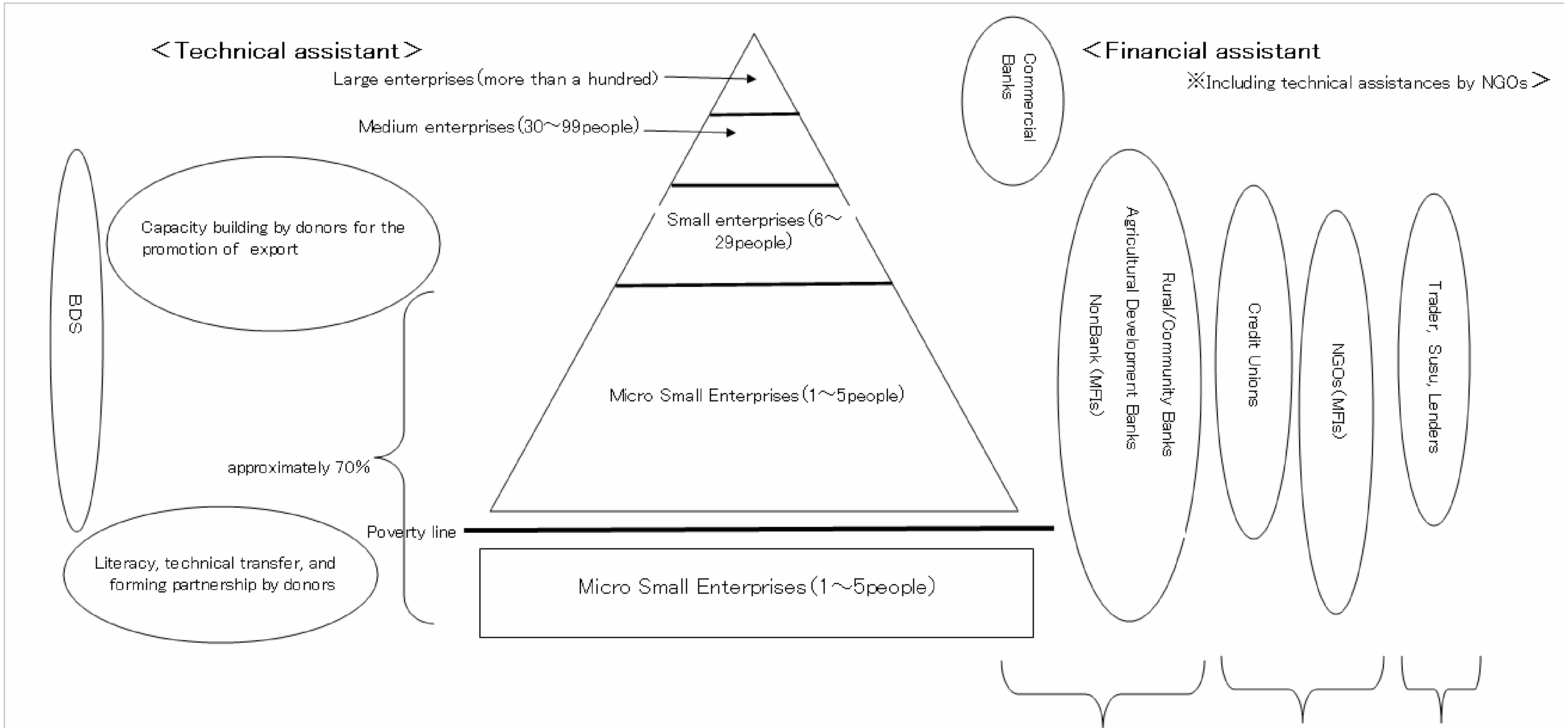
	Central	Accra	Eastern	Volta	Western	Northern	Upper East	Upper West	Total
NGO	8	29	9	14	8	18	11	9	106
SUSU	1	2	0	0	0	0	0	0	3
Local Bank	2	1	4	4	2	2	1	0	16
Credit Union	0	1	1	0	0	0	0	1	3
Apex Body	3	3	3	3	3	3	3	3	24
BDS Provider	2	10	1	2	3	2	1	1	22
Saving/ Loan	0	6	0	1	2	0	0	0	9
Bank of Ghana	0	0	0	0	0	0	0	0	0
Total	16	52	18	24	18	25	16	14	183

Source: Based on the Membership pf Network in the same source with Table 3-8.

In the light of the Table above, in the Northern Savanna regions, the access to financial/technical services is limited, while it is better in urban areas like Accra. Especially, BDS organizations are concentrated in urban areas. PAB Development Consultants, the only BDS provider in the Northern Savanna regions, does not provide financial services, and only provides technical assistance like managerial advice or training. In these regions, where numerous poor people live, Apex Body and NGOs are virtually the only providers of financial services[9].

In view of the above descriptions, although many kinds of support are being provided for MSEs and SMEs, their services target mainly urban areas but rarely rural areas. Since, in Ghana, the majority of the working population are carrying out economic activities in rural areas, of the utmost importance are to activate local industries, to improve financial services and infrastructure, and to upgrade social services like education in these areas.

[9] Reportedly, about 70 percent of poor people live in the Northern Savanna regions.



*Access to the financial services is very restricted expecially in the North region, where is described as the poorest area.
*'Microfinance poverty outreach and performance assessment', GHAMFIN , refer to p46

Figure 3-3 Relationship between MSEs and supporting schemes

Chapter4 Zambia[1]

4.1 General Remarks on Micro and Small Enterprises in Zambia

In Zambia, the micro and small enterprises (referred to as "MSE") is defined as listed in the Table below.

Table4-1 Definition of MSE

Unit: K= Kwacha

	Number. of Employees	Annual Sales	Total Investments Excluding Land and Buildings
Micro(1)	Below 10	Below K. 20 million	Below K 10 million
Small(2)	Below 30	Below K 80 million	(a) For manufacturing a ndprocessing: Investments in machinery/plants below K 50 million (b) For trade and services:Below K 10 million

Note (1): per definition in the SED Act, No. 29, 1966..
Note (2): pre definition in the SED Act, No.29, 1966.
Source: Judai & Associates, "Jobs, Gender and Small Enterprises in Africa, Preliminary Report: Women Enterprises in ZAMBIA", Gender in Development Division (GIDO), the Office of the President (Zambia) and the ILO Office (Lusaka), October, 2003, p.13.

The medium enterprise is not officially defined. The small enterprise lacks an incentive to grow larger. Though many enterprises sell over K 80 million, the total sales values are not known. Reportedly, some enterprises prefer to remain small in order to keep privileges given to the small enterprise, such as exemption of a license fee[2].
In accordance with the above-said definition, the current status of MSEs is described below.

4.1.1 Current Status of MSE

Though there are no official data, out of the total working population of about 3.5 millions, 1.5 to 2, millions are estimated to belong to the informal sector[3]. In recent years, informal, small enterprises called "Tuntemba" are rapidly increasing. In the absence of other ways to earn a living, many of them have started retail business (Kantemba), or other small enterprises.

Based on available information[4], the State had been the largest employer offering about 80 percent of the country's total jobs, and played an important role in the economy before the introduction of the multi-party political scheme and the liberal economic system in 1999. In those days, shielded from foreign competitors, inefficient state enterprises were engaged in import-substituting industries, mainly manufacturing in the absence of the private sector.

The economy used to heavily depend on mining of cupper, which, in 1984, accounted for 81 percent of the total exports. The export revenues of cupper were spent on imports of food, beverages, tobacco, textiles, hide/skin products, wood products and industries' input materials. Due to cupper's stagnant price in international markets, the cupper mining continued to shrink: its contribution to exports declined to 69 percent in 1994, and to 51 percent in 2004[5]. Meanwhile, manufactured goods, which accounted for 11 percent of the total exports in 1984, gradually increased to 12 percent in 1994 and 22 percent in 2004.

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1 Currency unit of Zambia is Kwacha (K/ZMK), ZMK1=¥0.029.
2 UNCTAD, "Growing Micro and Small Enterprises in LDCs, The "missing middle" in LDCs: why micro and small enterprises are not growing?", December, 2001, p.72
3 Zambia Institute for Public Policy Analysis (ZIPPA), Newsletter, May, 2005 (The African Executive), http://www.africanexecutive. com/modules/magazine/articles.php?article=89
4 UNCTAD, "Growing Micro and Small Enterprises in LDCs, The "missing middle" in LDCs: why micro and small enterprises are not growing?", December, 2001.
5 World Bank, "Zambia at a Glance".

On the other hand, as imports have increased due to the liberalization, the manufacturing sector has been revealed vulnerable. As a result of speedy liberalization and inflow of cheap products from Asia and nearby countries like South Africa and Zimbabwe, the country's industries have been damaged. Because of increased imports of second-hand clothes called salaula, the textile industry was nearly destroyed. Most of domestic industries are unable to compete with imported goods and unable to export because of high inputs prices and inferior product quality.

Size and Sector Distribution of Enterprises

As of 1996, 714 thousand people, 18 percent of the working population, work for MSEs, of whom 47 percent are reported to be women[6]. There are about 336,600 MSEs, of which 99.4 percent are micro enterprises and 0.6 percent are small enterprises. In 2000, 55 percent of the working population worked for MSEs, and, if household unpaid workers are included, 82 percent are counted as MSE workers[7].

Table 4-2 breaks down MSEs by ownership, which demonstrates most of MSEs are run by individuals, mainly belonging to the vending, beauty treatment, eating/drinking sectors.

Table4-2 MSE's ownership structure by sector (%)

Ownership	Wood process	Metal process	Automobile maintenance	Beauty treatment	Eating drinking	Vending
Individual	63	84	53	63	59	70
Family	14	14	12	16	33	11
Joint venture	20	14	33	18	3	11
Non-owner	3	3	2	3	5	9

Source: The same with footnote (6).

Regional Distribution

Eighty-two percent of MSEs are located in rural areas, while 41.1 percent belong to the commerce and 10.2 percent to the service sector.

Sector Distribution

Because the Central Statistical Office does not distinguish the private sector from the public sector, the magnitude of each sector is unknown. The official statistics do not report the size of informal enterprises, either. Consequently, Table 4-3 below shows the sector distribution of the formal sector for any meaningful analogy. Services for individuals/communities are by far the most important, followed by trade and agriculture.

Table4-3 Number of employees in each formal sector (2005)

Sector	No. of Employees	%
Agriculture	65,496	15.0
Mining	32,103	7.4
Manufacturing	40,151	9.2
Electricity, Water Supply	6,309	1.4
Construction	7,953	1.8
Trade	67,251	15.4
Transportation	20,679	4.7
Service for business/finance	22,313	5.1
Service for individuals/communities	173,990	40.0
Total	436,245	100.0

Source: Central Statistical Office home page: http://www.zamstas. gov.zm/qtr/labor.asp

[6] Parker, C. J., "Micro and Small-scale Enterprises in Zambia: Result of the 1996 Nationwide Survey".
[7] ILO/Jobs for Africa, "Investment for Poverty Reducing Employment Report: Strategies and Options".

Ownership

Table 4-4 shows ownership of enterprises. Most of small enterprises employ less than 10 persons, and 46 percent of them are run by an individual without an employee[8].

Table4-4 Ownership of enterprises

Ownership	Features	Law
Individual	・Low cost and easy option for stat-up. A high risk option for the owner, because the owner bears entire risk. ・In case of bankrupt, creditors are entitled to request repayment by liquidating owner's personal assets. ・The owner pays taxes only on business revenues.	・Registration of Business Names Act ・Limited Companies Act
Partnership	・Founded by between 2 and 20 persons. ・Founded with minimum legal formalities. Simple documents are to be written by a lawyer spelling out a partnership agreement. ・Responsibilities and skills are shared by partners.	Partnership Act of 1990
Cooperative	・Founded by 10 persons or more. ・The legal person status is accorded. ・The members are responsible to the extent of their shares. ・Two kinds of cooperatives: one has 10 or more members, and the other is a Cooperative Union formed by 2 or more cooperatives.	Cooperative Societies Act
Limited Liability Company	・Two or more persons undertake business for profits. ・The legal person status is accorded. ・Limited liability.: the member is not responsible for company's debt. ・Two types: the public limited company (PLC) and the private limited company (PVC). ・At least 2 directors of the board. ・Three kinds: (a) responsibility limited to the extent of shares, (b) responsibility limited to the extent of guarantee, and (c) unlimited responsibility. ・Minimum own capital: K 10 million.	Limited Companies Act
Trade Name Registration	・For those who do not want to found a company. ・The trade name is registered. ・A registration certificate is issued. The procedures are simple, requiring a short period and cost little.	Registration of Business Names Act

Source: The same with Table 4-1. p. 15.

As of 2003, 2,632 enterprises and 5,838 trade names were registered. The trade name registration is preferred because it is less costly.

Constraints Impeding Growth and Management

Table 4-5 compares problems faced by Zambia's enterprises corresponding to their size[9]. For the small enterprise, "difficulty in borrowing" is the most serious problem.

[8] Parker, C. J. The same with footnote (5).
[9] The World Bank. Staff Appraisal Report. Zambia Enterprise Development Project. Africa Region. The World Bank, Washington DC, May.

Table 4-5 Business constraints faced by enterprises (graded per seriousness*)

Constraints	All Firms		Small Firms (1-10 employees)		Large Firms (50 or more employees)	
	Average	% of firms grading among the 3 most serious	Average	% of firms grading among the 3 most serious	Average	% of firms grading among the 3 most serious
Hard to borrow	3.5	52.6	4.0	71.6	3.3	42.0
Demand shortage	2.8	24.2	2.5	24.3	3.2	26.1
Compete with imports	2.6	22.8	1.8	14.9	3.2	26.1
Poor infrastructure	2.8	19.5	3.0	33.8	2.7	13.0
Inflation	2.6	47.4	1.8	33.8	3.2	58.0
Security	na	14.9	na	16.2	na	15.9
Skilled labor shortage	na	12.6	na	8.1	na	4.3
Lack of business support	2.4	11.2	2.4	16.2	2.2	4.3
Tax	1.8	6.0	1.0	0.0	1.2	0.0
Government regulation	1.1	1.4	1.1	1.4	1.2	2.9
Utility price	3.1	23.7	2.3	10.8	3.4	26.1

Note: grades: 1 = no problem, 3 = moderately serious, 5 = serious
Source: The same with footnote (1), p.73.

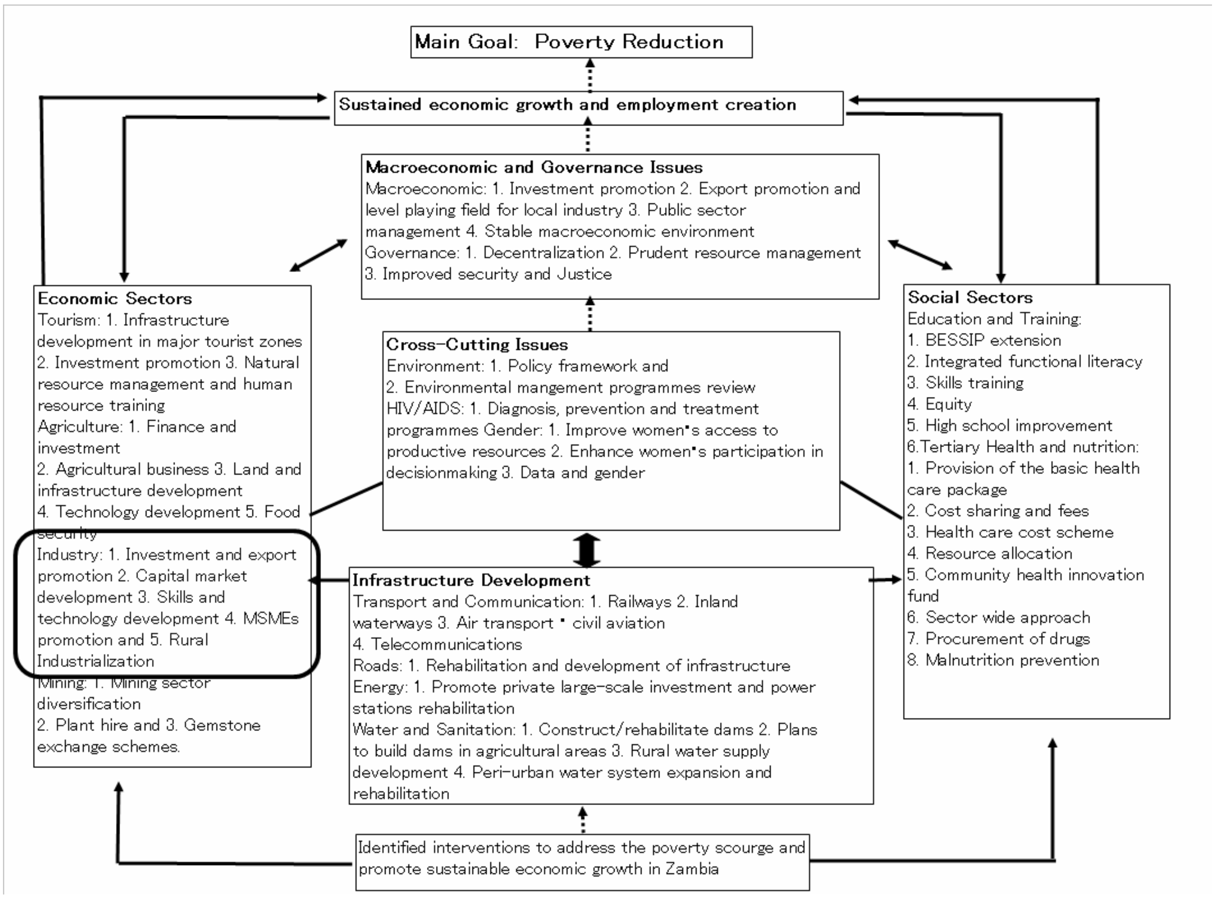
4.2 Outline of MSE Promotion Policy

4.2.1 Role of MSE Promotion Policy in Poverty Reduction Strategy paper (PRSP)

In November, 2000, Zambia was placed under IMF's Initiatives for Heavily Indebted Poor Countries (HIPC). Pursuant to the agreement with the IMF and the World Bank in December, 2003, Zambia should have reached the "Completion Point", restructuring its debts to write off about half of its international debts amounting to US$6.8 billion. Though, under the HIPC, Zambia's performance during the initial 2 years was satisfactory, it failed to comply with the agreement restricting public employees and their salaries, Zambia was removed out of the IMF borrowers' list in April, 2003. In consequence, Zambia was subject to the Supervision of Manpower Program (SMP) until June, 2004. Subsequently, in April, 2005, the World Bank (IDA) initiated debt restructuring in the amount of US$ 6 billion and debt forgiveness, which reduced Zambia's amortization (interest and principal payments) during the 2006-2010 period to US$ 65 million, which would have been US$ 261 million without such arrangement.

In Zambia's "Poverty Reduction Strategy Paper, 2002-2004" (PRSP)[10] providing the framework of the national development plan, the MSE promotion policy was positioned as one of poverty reduction policies by means of development of the economic sectors.
(Please see Figure 4-1.)

[10] Zambia Poverty Reduction Strategy Paper, 2002-2004.



Source: Zambia Poverty Reduction Strategy Paper

Figure 4-1 Summary of the Zambian PRSP

Under the heading of “”Industry” in the PRSP, the following 7 policies for industrial development are planned for reduction of poverty. The numbers denote the order of priority. (For the unnumbered policies, the order of priority is not specified.)

1 Investment promotion
2 International trade policy and export promotion
3 Promotion of micro, small and medium enterprise (referred to as “MSME”)
4 Rural industrialization
5 Develop capital market
6 Upgrade skills and technologies
・Science, technology, R&D
・Legal/regulatory framework

Since “3”,”6” and “4” have bearing on this study, they are summarized in Table 4-6.

Table 4-6 PRSP's policies for promotion of MSME

Policy Field	Supporting Method
MSME Development MSMEs form the basic linkage between manufacturing and poverty reduction. Strategies for developing them will include the establishment of private sector micro credit schemes, a central buying agency for MSMEs, and a revolving fund to be administered by an appropriately identified institution. Moreover, training of MSMEs in business management and technical skills will be supported. The linkage between the MSMEs and larger manufacturing firms will be strengthened, especially for intermediate raw supplies and labor intensive production processes. Appropriate institutional and legal instruments will further support the MAMEs, including the informal sector.	(a) Facilitate training and re-training in entrepreneurship skills for those falling out of formal employment. (b) Support the construction of industrial estates by the private sector for leasing to MSMEs; each municipality will mark out land and advertise it to developers for this purpose. (c) Encourage development of intermediate input supply linkages between MSMEs and large-scale enterprises. (d) Encourage procurement of goods and services, especially in the health and education sectors, from MSMEs. (e) Review and harmonize the existing legal and regulatory framework with a view to removing impediments to MSME operations. (f) Encourage the repeal or amendment of any statutes or regulations that hinder women and youth access to, and control of productive resources such as land, credit, trade information and technology. (g) Encourage the participation of women and youths in private and public credit schemes. (h) Provide business and trade information to MSMEs and informal sector entrepreneurs. (i) Design and implement measures that will facilitate expeditious acquisition of titles to land to ensure improved access to finance.
Development of Skills and Technology Skills development is key for the growth of manufacturing especially with respect to productivity growth. High-level technical skills, including those at the artisan level, will be developed.	Develop an incentive package to attract back into the country skilled human resources that have been lost to other countries. Re-introduce the apprenticeship scheme and advanced craft training. Re-introduce and formally recognize Master Craftsman schemes with a view to tapping accumulated skills. (d) Give special tax and non-tax incentives to manufacturers that invest in short-and long-term human resources training and skills development. The private sector will particularly be encouraged to set up management and technical training institutions. (e) Encourage and promote pre-employment training institutions and in-service training. (f) Work out a system of identifying industry-specific skills requirements in collaboration with the business community.
Rural Industrialization Past attempts at rural industrialization focused on setting up rural enterprises to reduce the imbalances arising from urban bias. Most of them failed due to, inter alia, misconceived viability, wrong setting resulting in expensive logistics, and burdensome political influence in the management of parastatals. In order to ensure that more manufacturing entities are established in rural areas, matters of economic viability, and correct physical siting to reduce the set-up costs will be addressed. It is also important to ensure a linkage between agricultural farming blocks, industrial estates, and outgrower schemes in order to establish industries close to the raw material source. Labor intensive approaches will be encouraged for employment creation.	Promotion of private sector investments that emphasize rural-based manufacturing, especially agro-processing, within the existing and the new farming blocks that will be established under the PRSP. Rehabilitation of existing farm-to-market roads and , in exceptional cases, building new ones to facilitate access to markets. Facilitating the provision of appropriate energy sources for small and medium-scale entrepreneurs, especially rural-based ones. Encouraging the use of alternative and renewable sources of energy such as solar power.

Source: "Zambia Poverty Reduction Strategy Paper 2002-2004".

Implementation of MSE Policies Pursuant to PRSP

The PRSP program gave priority to spending on agriculture, tourism, transportation and energy-related infrastructure among the productive sectors as well as education and health including HIV/AIDs. The MSE promotion was not given priority.

According to the Progress Report of the PRSP[11] evaluating the progress, the Government targeted, respecting the manufacturing sector, investment, trading, export promotion, rural industrialization and MSE promotion. Particularly, led by the Small Enterprise Development Board (SEDB), the Government promoted MSMEs, organized training, conducted enlightening activities and supported marketing. In 2003, the Government spent a billion Kwacha on rural industrialization and MSME promotion, and provided services for MSMEs through the SEDB. The SEDB spent K 63.2 million on workshops to train 469 persons. Besides, K 21.4 million was spent on importing nut-cracking machines to be used by women in the Western Region. K 6.9 million was further spent on monitoring and evaluation, participation in pertinent workshops and sponsorship of workshops for MSEs. In addition, through 12 courses, training of 184 MSEs was organized. In 2004, through the SEDB, for the purpose of MSE promotion, a lecture titled “Business start-up and creation of a business idea” was given to 239 attendants. Furthermore, 140 MSEs participated in trade fairs, and training institutions were rehabilitated.

4.2.2 Fifth National Development Plan (FNDP)

After the PRSP implementation ended, the Government formulated three plans to stipulate its direction of development that is to be efficient, effective and comprehensive: (a) the National Vision 2030 (the long-term plan covering up to 2030, (b)
the Fifth National Development Plan 2006-2010, Final Draft, June, 2006 (FNDP), and (c) the Country Development Plan. The goal set by the National Vision 2030 is to grow into a prosperous middle-income country by 2030. The FNDP spells out means to achieve the goal set by the “Vision 2030”. FNDP’s objective is to achieve broad-based wealth and job creation, and its strategy is to focus on economic infrastructure and human development. Notably, following PRSP’s foot steps, the FNDP is designed to drive economic growth actively and declares concrete strategies to succeed in poverty reduction targeted by the PRSP. Table 4-2 presents FNDP’s concepts.

[11] IMF, “Zambia: Poverty Reduction Strategy Paper Progress Report (The second Poverty Reduction Strategy Paper (PRSP) Implementation Progress Report Review: Status of the PRPS for the period: July, 2003-June, 2004.)”

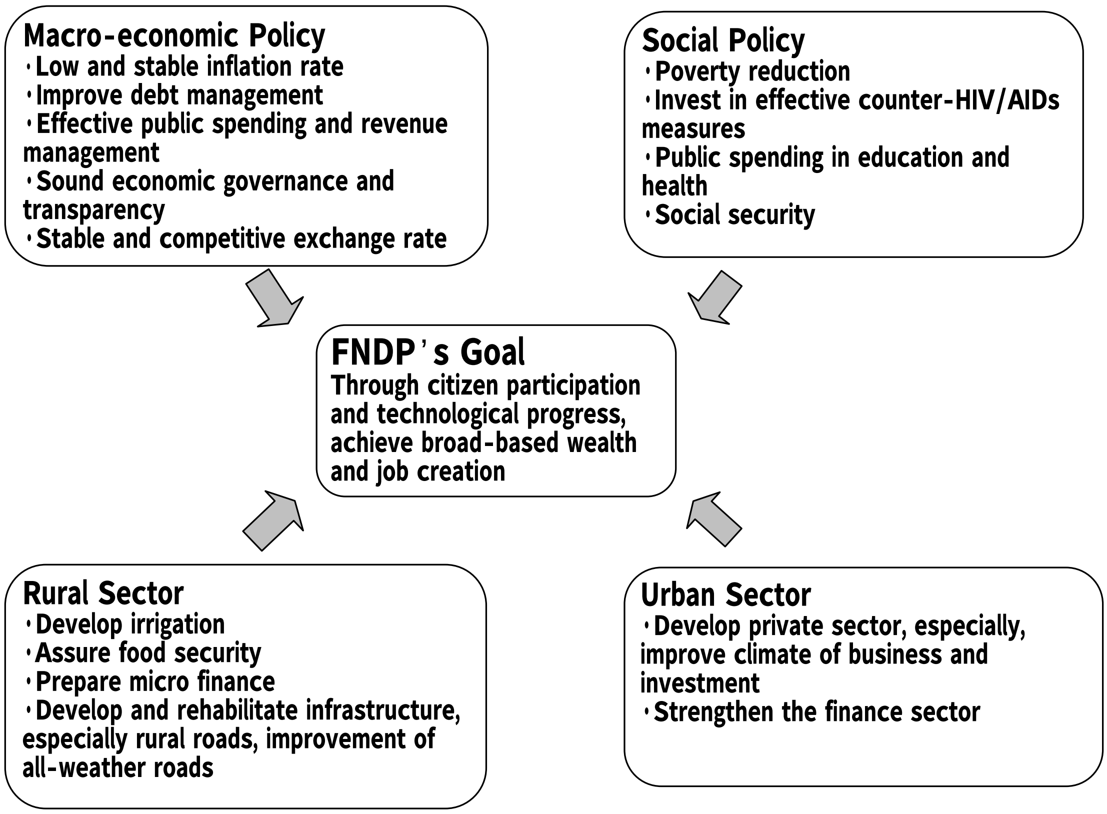


Figure 4-2 FNDP’s concepts

If FNDP's concepts (Figure 4-2) are compared with PRSP’s concepts, PRSP’s “Poverty Reduction through Sustainable Economic Growth and Job Creation” and FNDP’s “Achieve Broad-Based Wealth and Job Creation” are nearly identical, but strategies are different between the two Plans. Though the both Plans pinpoint macro-economic and social sectors, approaches have been redefined in the FNDP. While the PRSP adopted task-oriented strategies, focusing on “infrastructure development” and “economic sector”, FNDP’s approach is based on Regions-- urban and rural-- by defining tasks in accordance with Region-specific features. For example, in the rural sector, “micro finance” is to be promoted, while in the urban sector the “financial sector” should be strengthened. Such shift in approaches has apparently become necessary because the FNDP implementation now falls under the responsibility of the local governments due to the decentralization to be discussed in Section 4.2.3 and also because the disparity between cities and rural areas has widened.

Achieving Broad-Based Wealth and Job Creation

The steady economic growth since 1999 driven by capital-intensive industries in cities like mining, wholesaling, retailing, trade and construction has not led to sufficient employment creation because of loose linkages with other sectors. The FNDP consequently emphasizes pro-poor growth, expecting the mining, construction and energy sectors to drive the economy. Namely, the FNDP regards rural development, agriculture and manufacturing as the key sectors which are expected to create wealth and jobs and to contribute to rapid reduction of poverty. In addition, linkages between capital-intensive industries and other industries will be made closer for the purpose of broad-based growth. Through development of agriculture and rural areas, large scale commercial farming will be promoted and their linkage with related small enterprises will be tightened for creation of wealth and jobs. The FNDP deems it essential to use modern technologies by upgrading production technologies, bringing up rural markets, developing agriculture and financial services, establishing market chains and improving infrastructure.

Economic Infrastructure and Human Development

The FNDP could not be effective only with development of agriculture and rural areas. Economic infrastructure like roads, bridges, communication facilities and dams must be improved, mainly by means of rehabilitation of existing facilities, to improve such climate that would facilitate economic activities of the private sector. Consequently, the FNDP focuses on improvement of economic infrastructure and human resource development relating to education and health services. Therefore, its spending will be concentrated on infrastructure like roads, agricultural development, education, health, water supply, sanitation and the police for security and public safety.

Manufacturing

Throughout the implementation period of the FNDP, the Government's stance is to remove barriers constraining performance of manufacturing. Therefore, the following interventions are being considered: (a) Improve MSE's access to finance, (b) Remove administrative hurdles hampering business start-up, (c) Improve the regulatory framework and set up special export zones with necessary facilities for empowering exporting indigenous enterprises, (d) Build sufficient infrastructure (roads, railways and communication facilities), (e) Assure access to modern available technology, and (f) Tackle a range of cross-cutting tasks such as a shortage of demand.

Table4-7 Major problems, objectives and strategies of FNDP relating to manufacturing

	Program	Objective	Strategy
1	Promote investment	Build a basis for development of the private sector, implemented through reforms based on the programs for developing the private sector aiming at improvement of investment climate. By means of creation of sustainable employment and wealth, the private sector will contribute to more effective reduction of poverty.	Invest in infrastructure to stimulate private investment. Maintain macro-economic surroundings to bring up and upgrade long-term capital market. Incorporate the Triangle of Hope Initiative in the private sector development program.
2	Develop financial market		Provide long-term finance through capital markets aiming at investment promotion and production support for faster growth of manufacturing.
3	Develop technology and manufacturing skills		Develop skills suitable for manufacturing and strengthen job capability by means of OJT.
4	Bring up MSMEs and use initiative to empower citizens economically		Encourage domestic investment through: Improving access to financial resources and to government procurement for supporting law-abiding MSMEs. Supporting MSE's business management and training in technical skills (c) Tightening linkages between large firms and MSMEs supplying intermediate goods and using labor-intensive production processes. (d) Improving the organizational/legal framework suitable to supporting MSMEs including those in the informal sector. (e) Formulating economic empowerment policies and preparing empowerment programs providing BDS to MSMEs. (f) Fostering citizens' empowerment initiatives enabling local firms to access to resources for production like land and capital. (g) Encouraging formation of partnership between local firms and multinational firms for skill transfer through business tie-up.
5	Rural industrialization		Support small manufacturing firms in rural areas by means of appropriate infrastructure development targeting processing of primary products by the following means: Advocate economic benefits of inducing more firms into rural areas and point out inadequacy of infrastructure Facilitate a linkage between farmers' blocks and manufacturing areas to establish a consignment contracting scheme where manufacturing takes place near material-producing areas. Draw up a rural industrialization plan. Evaluate economic potential of rural districts. Search marketing chances for goods made in rural areas. Foster an innovative small/medium-scaled credit service scheme. Fasten development of alternative renewable energy sources like solar power.
6	Improve product quality		Improve quality of local products to make them competitive, domestically and internationally, especially by the following means: Empower testing, inspecting, certifying and accrediting processes. Encourage manufacturers to join ZABS and disseminate information for quality control.
7	Address cross-cutting themes: HIV/AIDs, gender, environment		Reduce damage of HIV/AIDs inflicted by workers. Encourage gender equality in the manufacturing sector. Abate environmental deterioration and enforce regulations for pollution and emissions (including enlightening of polluting firms)

Source: produced by the Study Mission based on: the Ministry of Finance and National Planning, "the Fifth National Development Plan: 2006-2010", pp. 98-99.

4.2.3 Implementation of MSE Promotion Policy: FNDP's Implementation Framework

The FNDP was drawn up by the Planning and Economic Management Department (PEMD) of the Ministry of Finance and National Planning in collaboration with other Ministries, donors and citizens' groups. The PEMD plays a central role in FNDP's execution, coordination, monitoring and evaluation, using foreign technical and financial assistance earmarked for the FNDP. Donors are expected to provide assistance in conformity with FNDP's frameworks and priority, avoiding concentrating on a few fields and thereby limiting aids to other fields.

Figure 4-3 depicts FNDP's implementation framework. At present, the departments/divisions of the central government Ministries concerned are executing the FNDP. In future, however, the responsibility for the implementation will be assigned across the Ministerial jurisdictional lines. Meanwhile, because the decentralization is being introduced in Zambia, the top-down instruction scheme is being replaced by the local autonomy, where local governments like the District or Province will formulate and implement their local development plans in collaboration with the private sector, citizens' groups and NGOs. Under this system, strategies and development priorities are to be established and resources will be allocated in the light of local stakeholder's opinions.

In this manner, the Zambian FNDP will be implemented in future across the Ministries' jurisdictional lines on the national level; and, on the local level, on the basis of information-sharing and mutual fees-back on implementation mechanisms between local communities and the central Government so that local situations will be more appropriately reflected in the policy making.

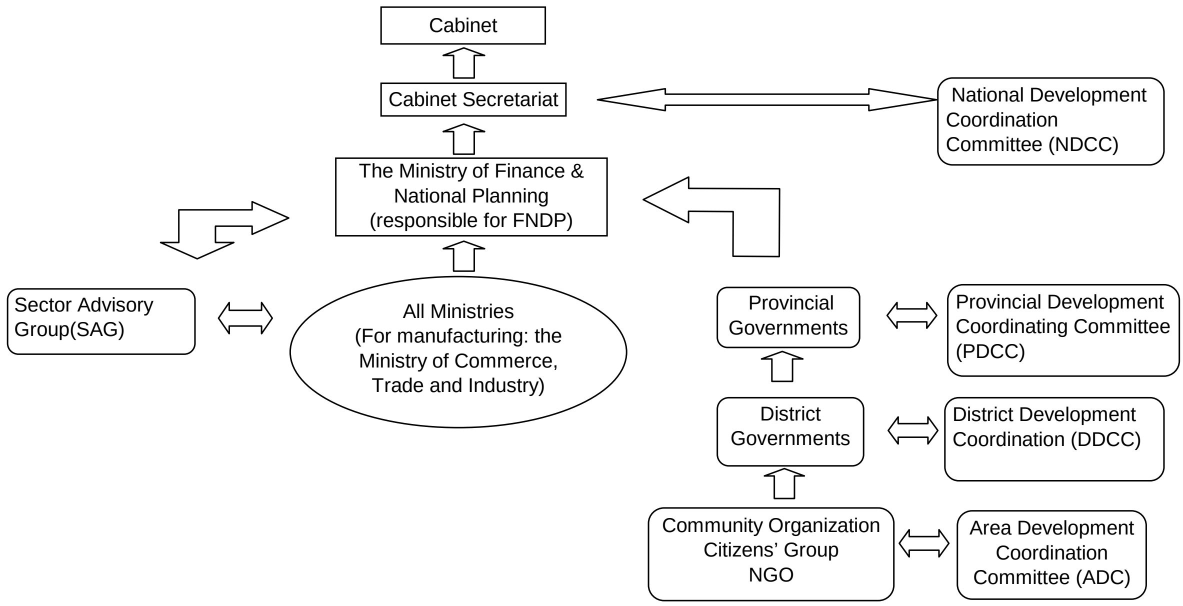
For the FNDP execution, the Government plans to make more use of sector-wide approaches (SWAPs) and direct financial assistance. To this end, the Government will make and carry out result-oriented plans encompassing a mechanism to monitor each activity on the basis of output, outcome and impact[12].

FNDP's cost estimates amount[13] to K 40.5 trillion (US$ 12 billion), of which 60 percent (US$ 7.2 billion) will be funded within the country, and the remaining 40 percent (US$ 4.8 billion) will come from foreign sources. For functional allocation, a relatively large amount is allocated to "labor" (US$ 3.7 billion, 31 percent), "education" (US$ 2.8 billion, 23.5 percent), and "local governments and decentralization" (US$ 17 billion, 14.3 percent), as these three functions receive the largest share of allocations.
"Manufacturing", however, will be allocated US$ 26.9 million (0.0 percent), much less than other fields. Activities[14] for "labor" include those for "mainstream special interest and vulnerable group", aiming at creating jobs for the handicapped, youths and women, but the estimated costs for each of these sub-groups are not specified

[12] For example, the major indicators of performance of "manufacture and commerce" are: foreign direct investments (The target is 15 percent increase in 2010 from US$ 20 million in 2005.), the growth rate of manufacturing sector's GDP generation (The target is 7.5 percent up in 2010 compared with 5.1 percent in 2005.), and the number of employees in the manufacturing sector (Increase by 15 percent in 2010 is targeted from 54,000 in 2005.) (FNDP, P.254.)

[13] The cost estimates exclude general administration, running expenses, personnel expenditures and very large investment programs, which are expected to be financed through private capital flows, but include personnel expenditures related to health and education.

[14] The activities defined here aim to expand programs for education in entrepreneurship, apprenticeship and in-house training, as well as to improve access by women and youths to land or other productive resources, provide vocational training to the handicapped and improve access by the handicapped to financial services. (FNDP, p.74.)



Source: Produced by the Study Mission based on: Ministry of Finance and National Planning, "the Fifth National Development Plan 2006-2010 (final draft), June, 2006, pp. 98 and 251.

Figure 4-3 FNDP's implementation framework

4.3 Current Status of MSE Promotion Policy

For MSE promotion, the FNDP aims at improving the business climate. Particularly, for "access to finance" and "human resources development", the following policies are being carried out.

4.3.1 Improvement of MSE's Access to Financial Service: Micro Finance

In Zambia, the micro finance services are defined as "the provision of services primarily to micro and small enterprises and low income customers, including the provision of credit facilities normally characterized by frequent repayments and the acceptance of remittance"[15]. The Government recognizes the micro finance as the decisive means for creation of dynamic employment opportunities[16]. In fact, as Table 4-8 shows, the micro finance institution (referred to as "MFI") is the major provider of financial services to the MSE. Their assets and deposits, however, are far less than commercial banks. In 2004, it was estimated that, compared with demands for them, the MFI met only 4 percent, which was far less than enough.

[15] http://www.microfinancegateway,org/resource_centers/reg_sup/micro_reg/country/49
[16] Chiala Chiumya, "the Regulation of Microfinance in Zambia, March, 2006.

Table 4-8 Zambian financial sector

Kind of Institution	Number Sept., '06	Assets June, '06 US$ million	Deposits June, '06 US$ million	Targeted Markets
Commercial Bank	13	2,100	1,500	legal corporation, city
Housing Association	3	23.5	19.4	real estate acquirer
Lease	8	59.7	11.4	
Foreign Money Changer	32	3.9	na	buyer/seller of foreign money
Deposit-taking MFI	4	27	3.2	MSE, poor people
MFI Not Taking Deposit	4	27	na	MSE, poor people
Moneylender	-	-	-	poor people
Credit Union	-	-	-	small firm, poor individual
Zambia Development Bank	1	na	na	
National Saving & Loan Association	1	-	-	Support saving by small firm
NGO	-	-	-	MSE and poor people: specific targets are decided per missions of each MFI and donor's choice.

Source: Microfinance Gateway,
http://www.microfinancegateway.org/resource_centers/reg_sup/micro_g/country/49/0

MSE's Current Access to Financial Services

On the basis of an example reported in the study on financial services for small enterprises in Lusaka and its suburbs by PULS[17], a large Zambian MFI, MSE's current access to financial services is described below[18].

Clients—not very poor individual entrepreneurs

The majority of them are married, and aged between 30 and 39. Women comprise 60 percent.
Most of them are retailers selling food and miscellaneous goods, while a small number of them are manufacturers.
Owners of micro firms are not very poor, but their nutrition intake is not well balanced. Most of them eat three times a day, and their children attend public schools.
Some of them live in Government's houses for poor people in the suburbs of a city. The family members number 5 to 9.
They keep cash or save at chilimba groups, a voluntary saving scheme.
Many of them have a monochrome TV set or radio.
Many of them are graduates from a primary school or middle school, and can read and write with a little difficulty. About 15 percent of them are literate.
The average monthly household revenues are K 670,000 (US$ 175), but 55 percent of them get only K 500,000 (US$ 132), and 19 percent of them, K 250,000 (US$ 66).
Poor people without a regular job are not eligible for the PULSE loan and PULSE membership, because they are unable to make required deposits.
More wealthy people are not suitable for the PULSE loan[19].

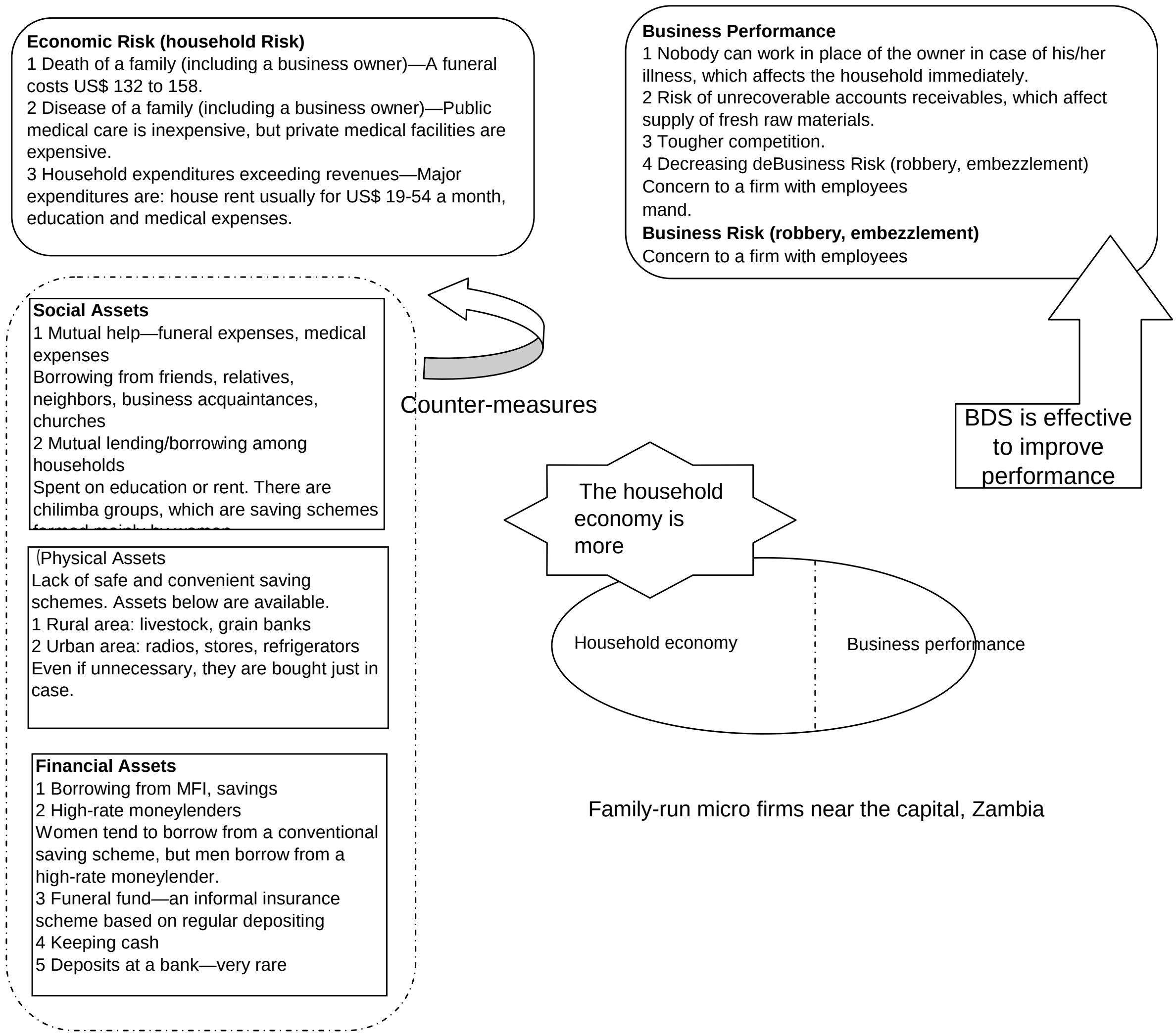
[17] PULSE stands for Peri-Urban Lusaka Small Enterprise Project, which is an MFI established in 1994 by CARE Zambia with Canada's aid. PULSE provides financial services to an MSE or its owner, who is poor but economically active. Pursuant to the principles of Grameen Bank, it finances individuals and groups of individuals who have been trained in monetary management and have deposited at least 10 percent of the desired loan amount in the Loan Insurance Fund.

[18] emmy Manje and Craig Churchill, "Social Finance Programme & In-Focus Programme on Boosting Employment through Small Enterprise Development, Working Paper No. 31. The Demand for Risk-Managing Financial Services in Low-Income Communities: Evidence from Zambia", published by Employment Sector, ILO.

[19] If the husband has a regular job and his wife manages a business, or if both of the couple work in the formal sector, such wealthy family with more than one source of income including salaries, shops or houses to be rent normally needs a larger amount of loan than micro finance. Such family often keeps an account at a commercial bank, takes meals with well-balanced nutrition 3 times a day, or manages an MSE with employees. Their

Risk Management

The micro enterprise does not normally distinguish business accounting from personal accounting. The household economy of the owner tends to be more vulnerable to risks (stress) than his/her business is. The business risk can be reduced through non-financial support such as training in business risks and marketing assistance, while the household risks can be reduced, as depicted in Figure 4-4, by means of a variety of financial facilities owned by him/her, which are not limited to the micro finance but consist of social assets, physical assets and financial assets.



Source: Produced by the Study Mission based on the literature referred to in footnote (17).

Figure 4-4 Examples of access to finance by a micro enterprise near Lusaka

4.3.2 Technical Assistance for Human Resources Development

Reportedly, the medium enterprise suffers a shortage of skilled workers[20]. Especially, a shortage of manpower for supervisors and managers is serious. According to the survey in Zambia's investment climate by the world Bank (2004), the value added per worker in Zambia amounts to US$ 2,700, which is more than in Uganda and Tanzania but less than in Kenya, India and China. Consequently, Zambia needs to raise labor productivity.

children attend a reputable school and learn English.

[20] The remarks in this sub-section are based on: World Bank, "Appraisal Report on the Project: Support for Economic Expansion and Diversification (Seed)", June 25, 2004.

Of the total amount of financial services for MSEs, 55 percent is provided by NGOs, 31 percent by cooperatives, churches, research institutions and a development bank, and 3.4 percent by other private organizations. Generally speaking, business and professional associations are less capable of furnishing financial services[21].

The approaches taken by the Government and NGO normally are not common respecting their services, and they seldom coordinate each other in providing their services. NGOs provide support without recognizing Government's definition of the MSE, do not coordinate with other institutions, and know little about other assistance being provided for the sector they support.

The following Government agencies, which are responsible for rectifying inefficiency of assistance for the MSE, facilitate investment and quality improvement:

The Small Enterprises Development Board (SEDB)
The Export Board of Zambia (EZB)
The Technology Development and Advisory Unit (TDAU)
The Zambia Bureau of Standards (ZBS)
The National Council for Scientific Research (NCSR)

During the implementation period of the FNDP, the Government plans to establish the Zambia Development Agency (ZDA) and the Tariff Commission. Then, the following five agencies currently supporting MSE will merge with the ZDA so that the ZDA will act as the one-stop center to facilitate investment from within and outside Zambia:

The Zambia Investment Centre (ZIC)
The Zambia Privatisation Agency (ZPA)
The Zambia Export and Processing Zone (ZEPZ)
The Export Board of Zambia (EBZ)
The Small Enterprise Development Board (SEDB)

The Government also plans to put into practice the Private Sector Development (PSD) Reform Programme to speed up economic growth led by the private sector. The PSD is designed to promote reforms in the six fields: namely, "policy environment and organizations", "regulations and laws", "infrastructure", "support of business and diversification of the economy", "trade expansion" and "citizen empowerment". As of December, 2004, the implementation system is weak and reportedly is not leading to a steady progress. (FNDP, p.96.)

In the private sector, in 2000, the Zambia Chamber of Small and Medium Business Association (ZCSMSA) was established so that it will provide MSEs with professional BDS through its District Business Associations (DBAs). By 2005, the Chambers were established in 7 sectors with 69 DBAs and 9,000 MSE members in the country.

4.4 Donor's Assistance for MSE promotion

The Government policies described above focus on the macro level issues, and fail to make concrete policies addressed to MSE promotion in rural areas based on local uniqueness in the context of the administrative decentralization. On the other hand, some donors are providing assistance in conformity with the goal to achieve "broad-based wealth and jobs" through agricultural and rural development targeted by the FNDP. This section looks at examples of MSE-promoting assistance by such donors.

Table 4-9 lists fields of such assistance and the corresponding donors, showing that a number of

[21] UNCTAD, "Growing Micro and Small Enterprises in LDCs, the missing middle in LDCs: why micro and small enterprises are not growing?", December, 2001.

donors are trying to facilitate economic growth covering MSE promotion.

Table 4-9 Donors' assistance by field

Field of Assistance	Major Donors
Economic growth (agriculture, energy, privatization, MSE promotion, tourism, trade, wild life)	Africa Development Bank (ADB) Danish Aid (DANIDA) European Union (EU) Finnish International Dev. Agency (FINNID.A) Food & Agricultural Organization (FAO) Friedrich Ebert Stiftung (FES) International Fund for Agricultural Dev. (IFAD) Japanese International Cooperation Agency (JICA) Netherlands Norwegian Agency for Dev. (NORAD) Swedish international Dev. Agency (SIDA) UK Department for International Dev. (DfID) UN Dev. Program (UNDP) UN Children's Fund (UNICEF) US Agency of International Dev, (USAID) World Bank World Food Program (WFP)
Basic education (community school, inter-active radio, equality, gender, HIV/AIDs, infrastructure, technology, health service in schools, teacher training)	DANNDIA DfID Canadian International Dev. Agency (CIDA) EU FINNIDA Germany Ireland Aid JICA Netherlands Norway UNICEF UK World Bank
Health (public sanitation, malaria, HIV/AIDs, reproductive health, children's health, infrastructure, sector-wide approach, improved access to disease prevention, intervention by the District authority, gender and health, hospital reforms, fund raising for health care (human resources and medicine)	CIDA AfID DANIDA UNFPA Ireland Aid JICA SIDA UNICEF World Bank World Health Organization (WHO)
Democracy and governance (good governance, anti-corruption, citizens' participation in governance)	Netherlands Canada Finland Ireland Sweden Norway Netherlands EU Frederick Ebert Stiftung GTZ UK Germany UNDP World Bank

Source: USAID, "Country Strategies for 2004-2010", p.12.

4.4.1 Examples of Assistance for MSE through Micro Finance

UNDP, "Microfinance for Poverty Reduction" (Since July,2004)

In the last 3 years in Lusaka, the capital, and Chongwee located 60 km. away from Lusaka, the UNDP has implemented a pilot project designed to introduce the methodologies of Grameen Bank in Bangladesh; namely, "no collateral, borrowers' mutual help, banker's visit to clients and close monitoring and training" with modifications in reflection of Zambia's situations. In the opinions of Mr. Rashid Alamhas, an expert with 15 year experience at Grameen Bank, who has been sent to Chongwee for the Project, Zambia differs from Bangladesh in the following respects:

The micro finance is not functioning in Zambia as well as in Bangladesh though the both are poor, because Zambia's population density is low, and because the Zambians, poorer than the people in Bangladesh, have lower purchasing power and have very limited access to finance. Most of them sell unprocessed food or have other jobs to earn their living. Because of high transaction costs, very few MFIs target rural areas. On the other hand, because Zambian women have stronger decision-making power than women in Bangladesh, they would potentially drive dissemination of the micro finance like Grameen Gank's.

The Pilot Project has modified the methodologies of Grameen Bank in consideration of situations different from Bangladesh. For example: in Zambia, as woman borrowers are inflicted with HIV/AIDs from time to time, they become unable to repay the loan. In consideration of such incidence, the establishment of funds for mutual guarantee is being considered.

4.4.2 Examples of Assistance for MSE Promotion

On the basis of FNDP's concepts, the USAID provides a series of assistance. Following its "Country Strategy Plan for 2004-2010", the USAID uses the following five strategies to attain "prosperity, hope and better health for the Zambian people":

(a) Strengthen competitiveness of the private sector in agriculture and natural resources.
(b) Improve basic education for children aged eligible for schooling.
(c) Improve health conditions.
(d) Make the Government trustworthy.
(e) Reduce HIV/AIDs incidences through multi-field means.

The examples of (a) are:

(1) BDS through the Zambian Chamber of Small and Medium Business Association (ZCSMBA)[22]

Through the ZCSMBA, the USAID provides training, facilitates business-market linkages and furnishes start-up skills through access to the micro finance. Using its local arm, the District Business Association (DBAs), the ZCSMBA collects participating MSEs. At present, 55 DBAs are organized in 73 Districts, each of which draws up its action plan and facilitates linkage formation and networking between its members and various parties concerned within the District.

Supported by the ZCSMBA, the DBA has arranged provision of the micro finance by FINCA Zambia, which is a leading MFI helping MSEs. FINCA Zambia lent US$ 17,000 or more to 272 borrowers, and is collecting the repayments without problems in collaboration with the Chamber. The DBAs plan to strengthen their ties with more MFIs based on their experiences in operating the scheme.

[22] http://www.usaid.gov/zm/economy/successec.htm

Successful Example: Being a member of the Lusaka DBA supported by the ZCSMBA and funded by the USAID, Joy Mwambazi expanded Carol Exclusive Fashions, which used to be a self-employed firm, into an enterprise selling US$ 450,000 and employing 60 persons thanks to DBA's technical assistance. The company displayed its products at international trade fairs including the Florida Africado and South African SAITEX, taking advantage of its connection with the market facilitated by the Chamber.

(2) PROFIT Project (Production, Finance and Improved Technologies)— Financing and Technical Assistance

Over 5 years, the Project costs US$ 15 million, of which US$ 5 million is made available through a grant aid. Based on a comprehensive, market-oriented value chain approach, the Project aims to boost small farmers' earnings, raise additional funds and strengthen local business-fostering markets and service providers. In collaboration with the public entities, the Project provides services to 10,000 local small-scale producers possessed with high economic potentiality.

(3) Cupper-belt Rural Business—Sale of Products Processed by Small-Scale Producers from Local Crops or Natural Resources

Because in the cupper-belt, development of alternative industries is urgently needed, the Project is designed to develop crop production and raise value added, focusing on paprika, cassava and soybeans. Aided by the IFAD, the Project has been implemented since mid-2003, and is now in its third year. As the executing agency, the Cooperative League of the USA (CLUSA) spent US$ 644,405 in addition to US$ 1,241,263 funded by the USAID. The Project consists of: (a) grouping farmers in the cupper producing areas with economic potentiality, (b) disseminating the recognition that adding value to primary goods by households or small-scale processors remarkably helps increase income quickly, and (c) emphasizing well-planned linkages between the markets and the focused crops—paprika, cassava and soybeans.

(4) ZCSMBA's Warehouse Receipts Training Program—Diversified Agricultural Finance

In 2005, the USAID organized enlightening forums on lending by securing account receivables of merchandise stored in warehouses. The fields prioritized in each District are determined through consultations with the Zambia Agricultural Commodity Agency (ZACA), which issues a warehouse certificate for certified warehouses. Priority is given to the Districts whose warehouses have been certified by the ZACA, and training and dissemination campaigns are carried out. In order to encourage agricultural loan securing account receivables for crops stored in warehouses, the USAID provided 50 percent guarantee to 4 commercial banks[23]. The guarantee is made for fresh loan up to US$ 16.5 million in total. In order to ensure proper management of the warehouse and safe storage of secured merchandise, the USAID conducts enlightening and training in warehouse-managing know-how, ways to certify warehouses, grading of commodities and testing compliance with standards.

CARE Zambia[24]

Through its supporting programs for small businesses, CARE Zambia provides the following financial services to the poor people:

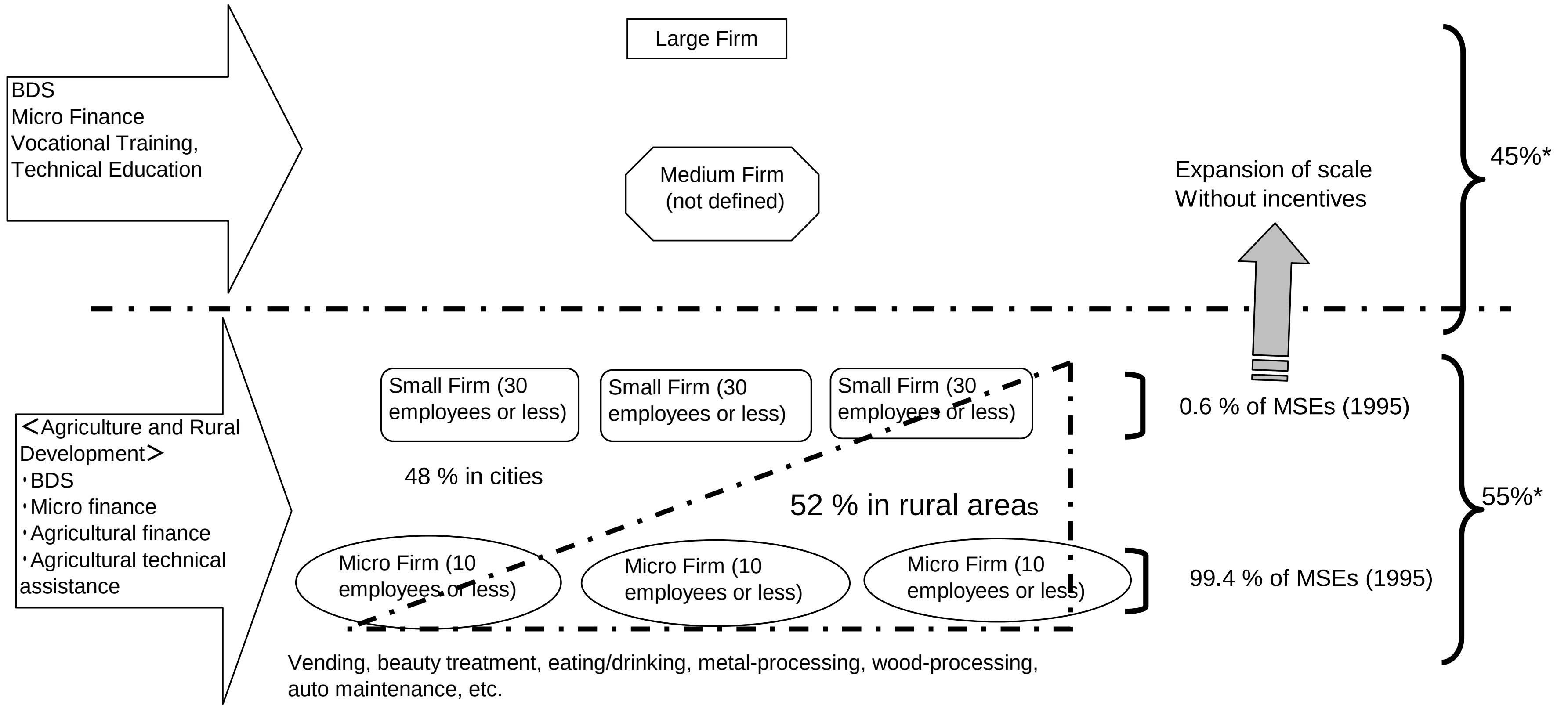
(1) Financial Service
・Loan to individuals and their groups
・Encouragement of saving by opening a saving account

[23] The guaranteed amounts respecting each of the 4 banks are: Barclays Bank Zambia PLC—US$ 6.5 million; Finance Bank Zambia, Ltd.--.US$ 0.5 million; Stanbic Bank Zambia Ltd.—US$ 3 million; Standard Chartered Bank Zambia—US$ 2 million.
[24] http://www.carezambia.org/sector.asp?secID=23

・Establishment and empowerment of MFIs, which provide loan and the BDS

(2) Business Development
・Training in business management (book-keeping, plan making, etc.)
・Technical training (vocational training in manufacturing, food processing, etc.)
・Marketing strategy

On the basis of the above descriptions, the relationship between MSEs and assistance programs is depicted in Figure 4-5.



Note: The percentages of MSEs and of enterprises in the other brackets are based on the number of employees in 2000. If unpaid household workers are counted, MSE's share goes up to 82 %.

Figure 4-5 Relationship between MSE and supporting schemes

Chapter5 Senegal[1]

5.1 Situation of Micro and Small Enterprises In Senegal

The "Charter of Small and Medium-sized Enterprises", approved in December 2003, makes it clear that MSE is part of the private sector. But the official definition also stipulates that the enterprises should follow authorized bookkeeping procedures, hence excludes de-facto the informal sector, which in reality dominates micro and small enterprises (MSE). According to the charter, the definition of small and medium-sized enterprises including micro and small ones is shown in Table 5-1.

Table5-1 Definitions of MSE

	No. of Employees	Annual Turnover
Small and Medium Enterprises	1～20	Services: Less than 10 million FCFA Trade: Less than 30 million FCA Handicraft Industry Less than20 million FCA

Source: The "Charter of Small and Medium-sized Enterprises", the Ministry of Small and Medium-sized Enterprises, Women Entrepreneurship and Microfinance. Definition about annual turnover comes from the National Agency of Statistics and Demography of the Ministry of Economy and Finance

5.1.1 Current Situation of Micro and Small Enterprises

Table 5-2 shows employment situation of registered enterprises. Majority of people are employed in rural areas. More than 50% of the active population, employed by registered enterprises, is aged below 30[2]. About 40% of actors of the informal sector come from rural areas, and only 1/3 of them can read and write[3].

Table5-2 Employed Active Population per Areas and Gender

	Male	Female	Total	Shares（%）
Urban	8,77,212	646,847	1,524,059	32.9%
Rural	1,653,206	1,460,542	3,113,748	67.1%
Total	2,530,418	2,107,389	4,637,807	100.0%

Source: Agence Nationale de la Statistique et de la Démographie (ANSD), "Situation économique et sociale, 2005" (National Agency of Statistics and Demography, in "Economic and Social Situation 2005")

Breakdown of the active population per region, again, shows the dominance of non-urban regions (shown in dark column) in the employment panorama, while Dakar region represents only 19% of the total employments.

Table5-3 Employed Population per Regions

Region	No. of Employed	Shares（%）
Dakar	867,583	18.7%
Diourbel	446,384	9.6%
Fatick	347,294	7.5%
Kaolack	508,889	11.0%
Kolda	458,607	9.9%
Louga	337,250	7.3%
Matam	175,880	3.8%
Saint Louis	306,709	6.6%
Tabacounda	333,384	7.2%
Thiès	601,832	13.0%
Ziguinchor	253,993	5.5%
Total	4,637,805	100.0%

Source : Same as Table 5-2.

[1] Currency Unit of Senegar is Franc CFA(FCFA/XOF)1=¥0.0241.
[2] Agence Nationale de la Statistique et de la Démographie (ANSD), "Situation économique et sociale, 2005".
[3] Ministry of Small and Medium-sized Enterprises, Women Entrepreneurship and Microfinance, "Microfinance et Financement des PME et MPE",2004.

Position of MSE in the Private Sector

Besides Agriculture, informal sector is dominating the tertiary sector, largely composed of MSE, such as trade and other services including import business that progressively acquired a dominating position. In terms of number of enterprises registered by the Ministry of Economy and Finance[4], Trade and other services represent over 75% of all enterprises in Senegal as is shown in Table 5-4.

Table5-4 Proportion of Enterprises per Sector of Activity

	2003	2004	2005	2005（Shares）
Industry	548	593	612	16.3%
Construction	249	286	296	7.9%
Trade & Services	2,435	2,751	2,841	75.8%
	3,232	3,630	3,749	100.0%

Source: Same as Table 5-2.

MSE are also well represented in the secondary sector, in the fields of activities such as handicraft manufacturing and construction. Regardless of belonging to formal or informal sector, manufacturing sector essentially consists of consumer goods rather than intermediary goods or heavy industry. Table 5-5 shows the active employed population in registered enterprises. Trade employs over 40% of the active population, out of which 2/3 are female workers.

Table5-5 Sector Distribution of Enterprises

Sector of activity	Male	Female	Total	Shares (%)
Trade	302,723	591,764	894,487	39.1%
Manufacturing	307,465	89,199	396,664	17.3%
Other Trade	123,872	83,326	207,198	9.1%
Construction	161,923	7,046	168,969	7.4%
Domestic services	8,451	129,853	138,304	6.0%
Transportation and Communications	127,616	9,815	137,431	6.0%
Public Administration	87,902	43,216	131,118	5.7%
Fishing	96,030	7,813	103,843	4.5%
Restaurants and Hotels	12,870	35,484	48,354	2.1%
Production of Food, Beverages, Tobacco	32,706	4,721	37,427	1.6%
Banks and Financial Institutions	4,191	4,429	8,620	0.4%
Extraction	3,261	3,716	6,977	0.3%
Private Administration	4,170	1,200	5,370	0.2%
Water, Gas, Electricity	3,559	1,030	4,589	0.2%
Total	1,276,739	1,012,612	2,289,351	49.4%

Source: Same as Table 5-2.

Structure of the registered enterprises shows the dominance of people enrolled in a family activity, which accounts for 40% of the total active population, followed by independent holders without employees' 27% as is shown in Table 5-6.

Table 5-6 shows working areas as well. 2/3 of the total employees work in rural areas. In urban areas, the numbers of people who work as independent holder without employee is the largest type whereas those who work as a family with no payments is commonly seen in rural areas.

[4] Agence Nationale de la Statistique et de la Démographie, "Banque de Données économiques et financières, 2005", December.

Table5-6 Employed Active Population per Situation of Employment

	Urban	Rural	Total
Family Member, not paid	117,241	1,598,036	1,715,277
Family Employee, paid	78,053	21,241	99,294
Regular Employee	318,017	76,250	394 267
Part Time Employee	94,388	45,893	140,281
Independent Holder, without employee	569,933	689,164	1,259,097
Independent Holder, with 1 or more employees	134,398	596 106	730,504
Employer	33,858	18,540	52,398
Apprenticeship	177,821	68,518	246,339
Total	1,523,709	3,113,748	4,637,457

Source: Same as Table 5-2.

According to the Ministry of Economy and Finance, informal sector would have generated half of the GDP, 90% of employments and 20% of investments in Senegal in 1998. The informal sector is characterized by low capital investment and low productivity.

The informal sector in Senegal has rapidly increased because of the rapid urbanization caused by the massive influx of people from rural to urban areas due to severe draughts over the last decades. Many literates as well a great number of newly graduates from high school or even universities fail to find a job in formal sector hence, started to work in informal sector. The majority of people working in informal sector are aged between 25 and 44.

Informal sector cannot comply with administrative and management process common in modern enterprises. Their traditional approach of management, as well as their reluctance to be controlled by complex regulations and taxation, makes actors of the informal sector not to find their way to be the formal sector and greater business development.

MSE's Needs in Senegal

Financial needs depend on the activity. It is estimated that money ranging from 100,000 to 500,000 FCFA (JPY 24,000~120,000) is needed for working capital, whereas between that from 100,000 to 5,000,000 FCFA (JPY 24,000~1,200,000) is needed for capital investment such as purchasing of equipments.

Besides financial and credit needs, MSE are faced with their weak capacity in terms of technical management. Support is needed for training such as corporate culture, cost and profits calculations, bookkeeping, financial follow-up, monitoring, etc. MSE are also in need of information on providers of adequate technologies, production methodologies and market information. Lack of transparency and reliability of available information are 2 most lacking problems faced by MSE. They make MSE's access to financial support more difficult. Table 5-7 summarized the needs of MSE.

Table5-7 Summaries of MSE's Needs

Short-term needs	Ordinary cashing
	Provision on orders
Mid-term needs	Acquisition of equipment (new or second-hand)
Other financial needs	Savings
	"Social" needs
Other needs less addressed	Training, coaching

Source：Ministry of Small and Medium-sized Enterprises, Women Entrepreneurship and Microfinance.

Presentation of the Handicraft sector

The sector of handicraft illustrates the predominance of MSE over the total number of enterprises: only 1% of the enterprises employ more than 10 people. This is to say that over 99% of the enterprises are MSE (Please refer to Table 5-8).

Table5-8 Numbers of Employees per Enterprise

No. of Employees	No. of Enterprises	Shares (%)
1	46,937	60%
2	13,162	17%
3	7,448	10%
4	4,009	5%
5	2,307	3%
6	1,355	2%
7	814	1%
8	523	1%
9	333	0%
10	241	0%
More than 10	798	1%
Total	77,927	100%

Source：Ministry of Small and Medium-sized Enterprises, Women Entrepreneurship and Microfinance、"Microfinance et Financement des PME et MPE", 2004.

The proportion of enterprises per region shows that handicraft enterprises are located in rural areas. Only 1/4 of them are located in the area of Dakar.

Regarding the educational level in the handicraft sector, about 80% of the actors have interrupted their education at primary school level, and the access rate to University is 0%. Table 5-9 is a result of a survey result targeting at 2,598 employees of 558 handicraft enterprises.

Table5-9 Education Levels of Handicraft Employees

Category	Population	Shares (%)
Primary school	2,104	81%
Middle and High School	312	12%
University	0	0%
Coranic school	1,481	57%

Source：Ministry of Small & Medium-sized Enterprises、"Rapport sur le financement des TPE et PME

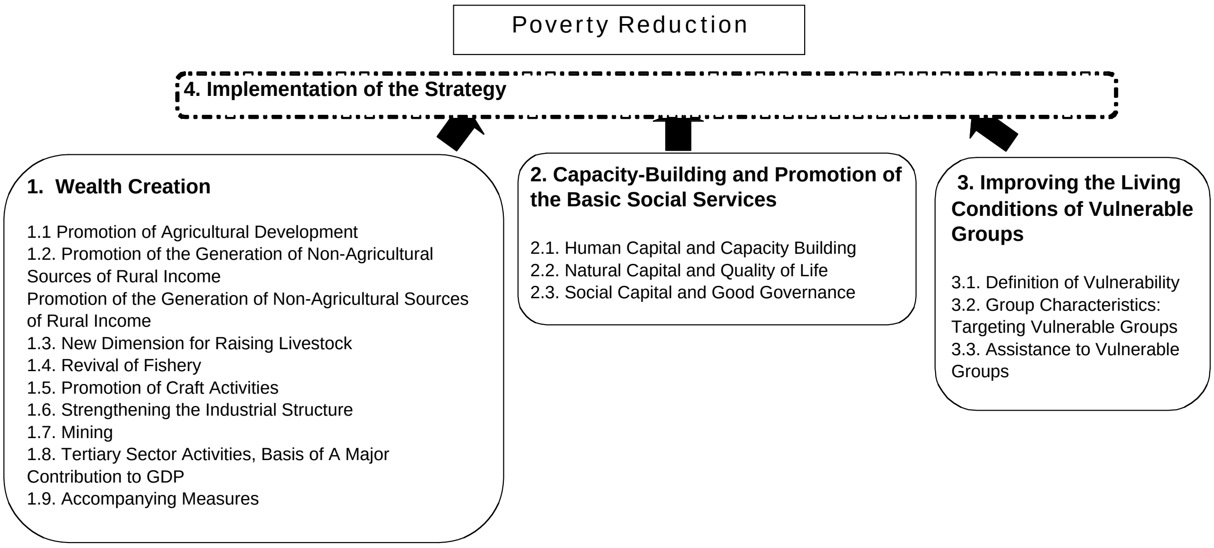
5.2. Government Support to Micro and Small Enterprises in Senegal

5.2.1 Position of MSE Development in Poverty Reduction Strategy Paper (PRSP)

Poverty Reduction Strategy Paper (PSRP) was adopted by the government in 2001 and approved by the Bretton Woods Institutions in December 2002. It is now under the preparation of Second PRSP 2006 to 2010.

PRSP, the national development framework of Senegal, proposed the following 4 strategies and action plans to achieve poverty reduction. Figure 5-1 shows the concept of PRSP.

1. Wealth Creation
2. Capacity-Building And Promotion of the Basic Social Services
3. Improving the Living Conditions of Vulnerable Groups
4. Implementation of the Strategy



Source: Study Team

Figure5-1 A Concept of PRSP

The four strategic approaches used in the Poverty Reduction Strategy are disaggregated into 22-targeted sectors/domains/groups (social development, health, education, tourism, judiciary, job market, etc.) and supported by the Priority Action Plan (PAP). Strategic approach “Wealth Creation” includes a project entitled “Assistance to SME” that belongs to the sectors/domains/groups that received a high level of consideration. Support policy for SME development is as follows.

- Stimulation of entrepreneurial enterprise.
- Organization and facilitation of access to advisory services.
- Setting up of a coordinating agency for the total support system.
- Creation of an environment favorable to enterprise development.
- Coordination of direct international support for enterprises.

Strategic approach “Wealth Creation” includes a project entitled “Assistance to SME” that belongs to the sectors/domains/groups that received a high level of consideration. Levels of consideration per sector of the strategic approach of “Wealth Creation” are as follows.

- High level of consideration: agriculture, livestock raising, fishing, the trades, energy, industry, and assistance to SME.
- Average level of consideration: support infrastructures and mines.
- Left out of consideration: trade, the private sector, and employment.

Allocation of resources for the year 2005 shows that execution rates of budget so far is as low as 10%, with an amount authorized for payment of 60 million CFCA (JPY 14,9 million) over domestic resources of 580 million CFCA (JPY 144,8 million). Regarding the proportion of Highly Indebted Poor Country (HIPC) related budget allocated per sector, “Assistance to MSE” is ranking 13th over 17 sectors with only 1% of the amounts allocated (about JPY 90 million for year 2005) as Table 5-10 shows.

Table5-10 Investment Expenditures from HIPC Resources Programmed for 2005

Sector	Millions (CFCA)	Yen	Shares（%）
Agriculture, water and forests	12,685	3,167,317,650	25%
Health and nutrition	7,555	1,886,407,950	15%
Decentralization	5,200	1,298,388,000	10%
Infrastructure and transportation	4,700	1,173,543,000	9%
Vulnerable groups	4,100	1,023,729,000	8%
Sanitation in secondary cities	3,436	857,934,840	7%
Education	3,216	803,003,040	6%
Fishing	2,449	611,490,810	5%
Energy	1,470	367,044,300	3%
Rural water projects	1,288	321,600,720	3%
Women	1,200	299,628,000	2%
Livestock production	1,150	287,143,500	2%
Assistance to SME	360	89,888,400	1%
Youth and Sports	300	74,907,000	1%
Long-term water sector project (PLT)	283	70,662,270	1%
Information technology and Communications	250	62,422,500	1%
Culture	200	49,938, 00	0%
Total	49,842	12,445,048,980	100%

Source：BCI 2005

5.2.2. Micro and Small Enterprise Promotion Policy

In 1999, the government formulated a Private Sector Development Strategy (PSDS) to stimulate private initiatives and investments by strengthening long-term development, improving the effectiveness of government assistance and strengthening private sector capacities. The strategy emphasizes the following approaches.

- Modernization of the justice system.
- Simplification of administrative procedures associated with investment.
- Financing enterprises.
- Unification of private sector organizations.
- Business training.
- Communications.
- Institutional mechanisms for assisting the private sector.

The position of the government towards Small and Medium-sized Enterprises is summarized in the "Charter of Small and Medium-sized Enterprises" approved by all partners when adopted in December 2003. "Small and Medium-sized Enterprises are not only the key to development, but also a strong contributor to the private sector and an essential component of Senegal in the frame of the implementation of objectives defined by the NEPAD (New Economic Partnership for Africa Development). Small and Medium-sized Enterprises account for 80% to 90% of the economic network of Enterprises in Senegal and captured about 30% of employments, 25% of sales volumes and 20% of the value added. The State defined the development of Small and Medium-sized Enterprises as a priority notably with the existence of various support programs and projects, and proposed the creation of a Ministry in charge of the Small and Medium-sized Enterprises. Being faced with those challenges, partners are considering a certain number of rules and principles to allow Small and Medium-sized Enterprises to fully play their role. Further, the charter indicates, "in terms of funding, innovative strategies are being considered in partnership with standard systems of access to bank credits, but also with an increasingly stronger involvement in the sector of Microfinance."

Following its formulation in partnership with international donors, the Private Sector Development

Strategy was updated in 2002 and 2004. Its main lines also appear into the Poverty Reduction Strategic Paper. However, the PRSP progress report points out, "the planned actions are experiencing delays in implementation".

5.2.3. Implementation Mechanism of Micro and Small Enterprises Development

The Ministry of Small and Medium-sized Enterprises and Microfinance was created in July 2003, confirming the interest of the government for the sector of Small and Medium-sized Enterprises. In December 2003, it adopted a "Charter of the Small and Medium-sized Enterprises", aiming at defining a certain number of rules and principles in support of Small and Medium-sized Enterprises, and to federate the support required in terms of internal organization, financing, professional training, taxation, access to regulated markets, etc. Presently, the Ministry of Small and Medium-sized Enterprises and Microfinance was converted into three organizations[5]: namely, the Agency for Small and Medium Enterprises (SME) and Counseling under the Prime Ministers' House[6], The Ministry of Microfinance and Decentralized International Cooperation (Ministère de la Microfinance et de la Coopération internationale décentralisée) and the Ministry of Women, Family, Social Development and Women Entrepreneurs (Ministère de la femme, de la famille, du développement social et de l'Entreprenariat féminin). The Agency for SME and Counseling is responsible for promotion of MSE.

Present Situations of Promotion of Micro and Small Enterprises Development

As MSE are practically prevented from accessing to bank credits, governmental authorities, with the support from external development partners, made the choice to constantly encourage the development of all types of projects aiming at creating and developing MSE, along with Medium-sized Enterprises. Several systems were implemented, including:

- Lines of credit hosted by a classical financial institution:
- Lines of credit APEX; lines of credit hosted by Crédit National de Crédit Agricole du Sénégal for various sectors.
- Projects of direct financing to Small and Medium-sized Enterprises:
- PME-FED in Dakar, Saint-Louis and Ziguinchor.

All existing projects are now closed. As a consequence of high costs, those projects failed to be profitable and methodological weaknesses prevented them from being efficient (confusion between financial support and technical support, etc). Results were often below expectations, recovery rates were very low and poor management resulted in heavy financial losses. In addition, direct funding projects failed to provide sustainable solutions to respond to the needs of MSE. The government and donors put a definitive end to this approach.

- Projects of support to specific sectors
  Support project to Women Promotion Groups (PAGPF, Projet d'Appui aux Groupements de Promotion Féminine); rotational credit to women promotion groups.

- Counterpart funds to support specific projects
  Fonds de Contrepartie Sénégalo Suisse

Counterpart funds follow a methodology combining the intervention of authorized financial intermediaries (banks and other financial institutions) in charge of credit and recovery management, and technical structures in charge of examining funding requests. MFI became the major financial intermediaries and the system turned into an efficient solution. Donors are contributing to provide an important support to MSE, with credit lines hosted by MFI and also receiving technical support

[5] Information obtained from the Embassy of Senegal to Japan on 8 March 2007.
[6] http://www.adepme.sn/。

from the same donors.

Guarantee funds aiming at covering credits granted by standard bank organizations to Small and Medium-sized Enterprises active in well-identified activity sectors:
Economic Promotion Fund (FPE, Fonds de Promotion Economique) ;
Other Guarantee funds for most sectors of activity.

The methodology consists in providing guarantee funds to financial intermediaries in order to benefit users who would otherwise not access credit due to the lack of guarantees. Results are said to be satisfying in terms of number of beneficiaries and recovery.

5.3 Institutional Support for Micro and Small Enterprises in Senegal

5.3.1 Improvement of the Access to Financial Services: Microfinance

Following the severe economic crisis in the 1970's and Bank crisis of 1987, the bank reform was launched in June 1989 with the financial and technical support of the West African States Central Bank (Banque Centrale des Etats de l'Afrique de l'Ouest: BCEAO) and several International Donors (World Bank, AFD, USAID and ACDI). Presently, there are 16 financial institutions, out of which 13 are commercial banks and 3 are special financial institutions, and microfinance institutions (MFI) operated throughout the country. Commercial banks account for 88% of the total assets, followed by insurance companies (8.7%) and MFI (2.6%)/

Since 1995, the Central Bank demands that at least 60% of banks' portfolio consist of loans approved by a standard/regulations set by the Central Bank. This measure aiming at improving the solvency and the quality of the portfolios was another reason why banks are even more reluctant to lend to smaller enterprises. As a consequence, Small and Medium-sized Enterprises are most often denied access to credit. This tendency is especially true for MSE.

Microfinance institutions started development at the end of 1990s with support from the above-mentioned donors and thanks to a favorable judicial framework. In order to promote saving and credit unions, the government set the technical support unit (AT-CPEC) in the Ministry of Economy and Finance and started to control and supervise domestic microfinance institutions.

By the end of 2002, microfinance represents 4,0% of the total deposits, 4,3% of total loans and 47,7% of the employees of the financial sector in Senegal[7]. According to estimates of BCEAO, MFI benefit over 2 families out of 3 ones. As of 31st December 2003, microfinance sector had reached 510,883 beneficiaries, a volume of credit of 57,8 billion FCFA (JPY 13,9 billion) and deposits of 42,1 billion FCFA (JPY 10,1 billion)[8] In 2005, the number of decentralized financial institutions had grown 721 in 2003 from 18 in 1993, and divided into 3 types of groups as shown in Table 5-11.

Table5-11 Number of MFI per Type (31 December 2003)

	No. of Branches	Shares（%）
Saving and Credit Union	203	28%
Saving and Credit Group	509	71%
Convention signatories	9	1%
Total	721	100%

Source: Ministry of Small and Medium-sized Enterprises, Women Entrepreneurship and Microfinance、2004

Geographical distribution of MFI clearly shows that majority locates in urban areas. Competition is especially fierce in urban areas of Dakar and Thiès, where 40% of MFI are located. On the contrary, areas like Diourbel, Fatick, Kolda, Matam and Tambacounda are not covered well by the

7 "Monograph of Decentralized Financial Systems Senegal 2002", BCEAO, 2004.
8 "Lettre sectorielle de la Microfinance", 2004.

network of MFI.

Despite the number of actors, the market is very concentrated. It is dominated by 7 microfinance networks that serve for 84% of the customers, collect 87% of deposits and operate 86% of all Credit operations, as of December 2003. Only a couple of MFI, including ACEP, CMS and PAMECAS, are financially self-sufficient (Please refer to Table 5-12)

Table5-12 Figures on 7 Major Financial Unions (31st December 2003)

(Units: million FCFA)

	CMS	ACEP	PAMECAS	UMECU	UMEC	REMECU	RECEC	TOTAL
Branches	76	1	28	53	26	3	16	203
Employees	249	109	211	134	60	28	90	881
Savings	20,680	2,070		4,975	303	475	501	36,692
Credit	11,315	13,297	7,418	3,794	397	554	465	37,240
Unpaid Credit	166	233	282	218	66	14	20	999
Provisions	230	76	123	152	35	11	3	630
Resources available	14,298	450	2,968	1,355	165	583	NC	19,819

Source: Ministry of Small and Medium-sized Enterprises, Women Entrepreneurship and Microfinance, 2004

The growth of Microfinance sector in Senegal is strong. The Ministry of Microfinance is estimating that the level of demand representing CFA 186,2 billions in 2005 (JPY 44,8 billions) may represent CFA 654,1 billions in 2010 (JPY 157,4 billions).

The Legal Framework

The supervision of MFI in the West Africa Economic and Monetary Union (WAEMU) zone is based on the PARMEC law[9] and its act of parliament adopted by the WAEMU Ministers Council on 17th December 1993 that are a derogation to the existing bank regulations. In Senegal, this legal frame was inserted in the domestic juridical regulations by the law n°95-03 on 5th January 1995. MFI are subject to the supervision of the Ministry of Economy and Finance ("Cellule AT-CPEC"), and of the West African States Central Bank (BCEAO). Supervision and regulations include yearly financial reports, supervision missions every 2 years on average, as well as keeping maximum interest rats and certain prudential ratios.

PARMEC law, enforced in 1997, was one of the first to be implemented in Africa to rule the sector of microfinance. But the law is presently faced with limitations and questions, including the complexity of its book-keeping formats poorly adapted to structures of non unions, insufficient prudential ratios, etc. It is under revision by the BCEAO. Although legal framework exists, but there is a lack of resources to strengthen efficient supervision, which weakens control of the sector.

Major Microfinance Institutions

The market is dominated by the Crédit Mutuel du Sénégal (CMS) and by PAMECAS in terms of Savings and number of Members, while ACEP is the leader in terms of loans. A growing actor to mention is UMECU, with an important development since a couple of years (Please refer to Table 5-13)

[9] Legislation to implement the law governing the microfinance industry in members of the West Africa Monetary Union (UMOA), known as the PARMEC Law, has been in effect since August 1997.

Table5-13 Market Share Among Major MFI (2002)

	% of Total Savings	% of Credits Granted
CMS	50,6%	21,7%
PAMECAS	20,4%	11,5%
UMECU	11,0%	15,6%
ACEP	4,8%	31,7%
Total	86,8%	80,5%

Source : BCEAO, 2004

CREDIT MUTUEL DU SENEGAL (CMS)[10]

CREDIT MUTUEL DU SENEGAL (CMS) dominates microfinance market in Senegal, covering all regions of the country serving 35% of the clients and collecting 51% from depositors (figures of year 2002, source: BCEAO, 2004). It started operating in 1988 in the frame of a project piloted by the Centre International du Crédit Mutuel (CICM) with the French Development Agency (AFD)'s support. In June 2000, CMS transformed itself into a Mutualist Federation, (Fédération des Caisses du Crédit Mutuel du Sénégal – FCCMS) regulated by West African law PARMEC and approved by National Authorities. Besides partnership between the Republic of Senegal and the AFD, its solid partnership with CICM helped CMS to become Senegal's leading MFI, with assets of over US$ 46 millions (JPY 5,6 billion), 44,000 active customers and 180,000 saving accounts (as of June 2005).

Initially very active in rural areas, CMS started urban operations in the beginning of the 1980's, and has now 74 branches nationwide in 2005. The number and proportion of branches per region shows that CMS now favors rural areas with 36 rural branches (60%), including 15 small branches, against 24 "urban" or "semi-urban" branches. The range of financial products offered by CMS is broad and includes:

- 4 types of saving products: current account, passbook account, saving plan account, time-deposit account;
- 6 types of credit products: consumption, social, vehicle, dwelling; and
- Other services: hostage of salary and retirement, credit of cheques, transfers.

Union des Mutuelles du Partenariat pour la Mobilisation de l'Epargne et le Crédit au Sénégal (UM-PAMECAS)[11]

UM-PAMECAS started in the frame of a project funded by the Canadian International Cooperation Agency (ACDI) and executed by the Canadian NGO "Développement International Desjardins" (DID). It was institutionalized in September 1998 in a form of Union composed of 21 affiliated branches. Later on, 9 other branches joined the Union. As of December 2004, PAMECAS network is composed of one Union, 30 branches and 15 service branches. The Division AT-CPEC of the Ministry of Finance supervises the Union and each branch. Growth is dynamic, though profitability decreased in recent years due to investments aiming at improving the information system and opening new branches in Thiès. PAMECAS has 163,902 members and represents an amount of Savings of EUR 15,6 millions (JPY 2,5 billion) and Loans of EURO 17,3 million (JPY 2,7 billion).

Operations mainly cover the urban zone such as Dakar where 90% of branches are located. Remaining branches exist in Thiès only. UM-PAMECAS offers broad range of services including short and long-term services. Original products such as the AFSSEF (targeting Senegalese Women to help them access to financial services) broaden the offer as well.

Since its creation, PAMECAS received about 1 billion CFA funding (JPY 240,7 million) from ACDI (Canadian Cooperation), the Local Development Funds from the Canadian Cooperation (200 million FCFA over 5 years / JPY 48 million) and Fonds de Contrepartie Belgo-Sénégalais (200 millions FCFA over 5 years / JPY 48 million). Relations with banks are limited.

[10] The rating Agency for Microfinance, 2005.
[11] Planet Rating, 2005.

The ongoing business plan covers the period 2005-2009 focuses on network development. Major lines of the strategy are:

- Reorganization of the network, consisting of transforming smaller branches into service branches and placing them under the umbrella of larger regional branches. The Union itself would delegate much of its responsibilities to the regional counters;
- Implementation in at least 2 more administrative regions (possibly Saint Louis and Louga);
- Diversification of Credit and Saving products, and development of the existing products in order to better respond to the demand in a growingly competitive environment;
- Finalization of the implementation of an efficient information system, including better communication between the branches; and
- Yearly increase of the number of members by 20%, of the credit amount by 19% that should be driven by the newly opened counters.

Alliance de Credit et d'Epargne pour la Production (ACEP)[12]

ACEP was created in 1985 as a project of USAID and the Government of Senegal. The project was initially entitled "Project to develop local communities and Private Enterprise in rural Settling" and was focusing on micro enterprises installed in the regions of Kaolack and Fatick. This project to encourage Rural Credit failed to be successful. In the early 1990's, activities were diversified towards MSE in urban areas, and Head Quarters were moved to Dakar. In 1993, ACEP was institutionalized and converted from an NGO into a licensed Credit Union. Over the same period, ACEP began to serve urban customers in addition to its rural client base. The institution is now under the supervision of the Ministry of Finance (Division AT-CPEC) in the frame of the PARMEC law.

Over the recent years, ACEP has developed strong relationships with commercial banks that are part of the institution's development strategy. The institution successfully negotiated access to direct loans, generally on the short-term, in order to respond to customers' demand. It also concluded a partnership with a bank that consists in ensuring transfers of funds to populations in remote areas, originating from immigrated relatives who are clients of the bank. ACEP, from a position of funded institutions, is turning into a position of partner of banks thanks to its national network reaching most remote populations, where banks are unable to reach.

As of December 2003, ACEP is granting EUR 18,1 million (JPY 2,8 billion) loans benefiting a portfolio of 17,200 active clients, besides 10,800 savings clients and 21,800 members. Activities of credit are especially on the increase over the recent years. The national network is composed of 8 regional branches and offers individual credit to MSE, as well as to certain Small and Medium-sized Enterprises, mostly in urban areas. In 2002, the distribution network covers all regions and includes 29 offices essentially urban or semi-urban areas. Proportion of loan amounts granted per region is an illustration of the "urban profile" of the institution.

Convention signatories

Among MFI, convention signatories represent 4% of deposits and 7% of credit. Convention signatories are as follows.

- Actions Plus ;
- Association Sénégalaise pour l'Appui et la Création d'Activités Socio - Economiques (ASACASE) ;
- Christian Children Food (CCF) ;
- Conseil National Pour la Promotion et le Développement (CONACAP) ;
- Catholic Relief Service (CRS) ;
- Femme Développement et Entreprise en Afrique (FDEA) ;
- Fédération Nationale des Groupements d'Intérêt Economique de Pêche (FENAGIE - Pêche) ;
- Programme d'Appui à la Micro-Entreprise de l'AGETIP (PAME / AGETIP) ;
- SAFEFOD.

[12] : Planet Rating, 2004.

Linkages between Banks and MFI

Before 1995, relationships between banks and decentralized financial institutions almost non-exist. Following the implementation of the reform and instructions of the BCEAO, as well as better results of the banking sector, the relationship improved. Banks are interested in the savings mobilized by MFI that constitute guaranteed deposits. Over 70% of MFI opened bank accounts. Caisse Nationale de Crédit Agricole du Sénégal (CNCAS) is the leader in terms of having continuous relations with about 40% of MFI, in rural as well as urban areas[13].

Société Générale des Banques au Sénégal (SGBS), Banque Sénégalo-Tusisienne (BST), Compagnie Bancaire de l'Afrique Occidentale (CBAO) and EcoBank-Sénégal are considering strengthening relations with MFI, including refinancing projects. Banks already intervene in MFI such as Caisse Nationale de Crédit Agricole du Sénégal (CNCAS) and are offering relatively favorable conditions regarding terms, rates and guarantees. It is expected that the growing interest of commercial banks to the microfinance sector should evolve the creation of branches or even departments specialized in microfinance.

Lines of Credit Provided by Banks

- Line APEX (World Bank): it remained unused for several years and became operational after a redefinition of objectives. Despite improvements to apply to MSE, APEX line mostly benefited large enterprises.
- Economic Promotion Fund (FPE, Fonds de Promotion Economique, line of credit of 39 billion FCFA or JPY 9,4 billion): it introduces innovative solutions to grant enterprises participative loans (10% of the project's amount), reducing the mandatory minimum individual investment of 30% to 20%. Credit request follow the criterions of the African Development Bank (BAD, Banque Africaine de Développement) and the FPE. According to the BAD, Economic Promotion Funds are now succeeding in Senegal. But according to Dakar Chamber of Commerce (CCIAD, Chambre de Commerce, d'Industrie et d'Agriculture de Dakar), credit lines mostly benefit large enterprises.

Postal Savings

Postal savings accounts for about 2 % of total deposits and its clients are 510,000 who live both in urban and rural areas. The Post Office intends to establish an affiliate company that provides financial services. It also plans to privatize 75 % of its shares and provides small loans and refinance MFI. The future prospect of privatization is not yet stood.

5.3.2 Technical Assistance

MSE not only face with financial constraints but also encounter various technical problems. There is no policy specifically targets micro enterprises, however, the government proposed the followings to promote SME in the Private Sector Assistance Strategy 2005 to 2010[14].

- Improvement of the legal and regulations environment so as to create a frame favourable to the promotion and the development of Small and Medium-sized Enterprises.
- Information and communication to make data on Small and Medium-sized Enterprises available.
- Access to the market based on enterprises' competitiveness and entrepreneurs' education.
- Implementation of financial products adapted to the needs of Small and Medium-sized Enterprises to facilitate the creation, the development and the reorganization of their activities.
- Promotion and development of support activities in favour of Small and Medium-sized Enterprises.
- Reinforcement of the institutional frame for the steering, follow-up and evaluation of projects and programs as well as the supervision of Small and Medium-sized Enterprises.

13 Lettre de la Microfinance.

14 http://www.senegal-entreprises.net/strategies-dappui.htm。

- Program to reinforce the National Fund for the Promotion of Women Entrepreneurship in order to facilitate access of women to financing.
- Program to reinforce the Microfinance Promotion Fund in favour of the re-financing of Savings and Credit Cooperatives.
- Creation of a Bank of Small and Medium-sized Enterprises.
- Program to reinforce the market of services to enterprises.
- Creation of an integrated pilot project for the transformation of fruits and vegetables.
- Creation of a fund to support “Enterprises in difficulty”.
- Program of promotion and development of Micro and Small Rural Enterprises.
- Program to facilitate the access of women to the market.

Technical support of donors, international NGOs and technical operators, in major part belonging to the French-speaking sphere, contributed to the development and the professionalism of the microfinance sector. The majority of trainings targeting MFI started in 1995 with trainings organized by the Council of Development Support Non Governmental Organizations (CONGAD, Conseil des Organizations Non Gouvernementales d’Appui au Développement) in collaboration with the Ministry of Finance (division AT/CPEC) and PAMECAS financed by ACDI. Service providers are now well diversified, including NGOs, microfinance agencies and private service providers. Trainings providers are diversified and focus on management and financial courses specific to MFI, including courses on the management of income-generating activities and credit management.

Survey of the needs expressed by MFI, targeting staff and management, show the dominance of needs regarding bookkeeping and financial management, information on the role of the various agencies, information systems and credit / savings management.

Constraints expressed by MFI are organizational and financial issues. Trainings require financial investments that cannot always be covered by MFI. To alleviate those constraints, identified solutions are the followings: find donors and partners to finance trainings, better identify beneficiaries according to their initial level of education, translate training document in the national language, implement action plans integrating training plans, and organize sessions to recycle and diversify beneficiaries[15].

5.4 Major Donors to Support Programs of Micro and Small Enterprises

Most bilateral and multilateral donors are intervening in the sector of Microfinance, and each major network is being supported by at least one major donor. For example, France, UM-PAMECAS by Canada, UMEC-Sédhiou by Germany, CRS by USAID, etc are supporting CMS. For others, even following hand-over from the related donor, the influence remains strong, as is the case for ACEP that was supported by USAID.

More and more, counterpart funds are oriented towards microfinance sector financing (e.g. Swiss-Senegal Counterpart Fund, Belgium-Senegal Counterpart Fund), but procedures should be more flexible to adapt MSE’ capacities**.**

Fonds International Du Development Agricole (IFAD)
Project Title :Projet de Promotion des Micro-Entreprises Rurales (PROMER)
The rural Micro-enterprise project (PROMER) began activities in June 1997 in 2 regions of Senegal (Tambacounda and Kolda) and by mid-term it had expended to 2 additional regions (Kaolack and Fatick). Those 4 regions represent about 51% of the national territory and a population of about 2 million people. Isolation and under-development are chronic, especially in the regions of Tambacounda and Kolda. Target population of the project is individuals or economic initiative groups. Priority groups are women and young people: the creation of MSE is meant to benefit the

[15] Lettre de la Microfinance, 2004。

poorest social groups. 70% of the MSE included in the project should benefit those poorest groups. The target population was estimated to 4,000 people. 30% were targeted to be included in the project, representing about 1,200 RME held at 50% by women. About 1,000 RME were to benefit financing amounts of 800 million FCFA (JPY 192,5 million), in addition to budget lines allocated to training of 200 million (JPY 48,1 million).

In order to achieve the following objectives, IFAD provided technical and financial cooperation to MSE.

- To create new paid seasonal or permanent jobs, thus improving income of poor rural families.
- To increase production of quality jobs and services by enabling a local farm production.
- To extend the annual productive work period beyond the farm work period.
- To reduce the rural exodus using working opportunities for young people.

PROMER is implemented based upon the idea that SME development will benefit the extremely poor. It is expected that 70% of SME involved in the project should benefit the poor. Total population of targeted area is about 4,000. About 30% of them including 1,200 micro enterprises, out of which women operate half, are expected to gain from the project. About 1,000 enterprises will be provided financial support of 800 million FCFA. Budget for conducting training, which is 200 million FCA, is included in the project budget.

Technical support includes functional literacy training, advisory support, market research, packaging, and promotion of fair participation. Technical support for setting up of production facilities such as agro-processing and wood processing, and of information & documentation center was provided as well.

In 2004, PROMER portfolio was:

- 1,359 MER including 683 creations (50%).
- 675 villages were beneficiaries, with an important dispersion (64% of the villages host one RME only).
- 33% of the RME are consolidations (held by groups / 74% of the groups are women's groups).
- Women hold 45% of the RME, and young people 26%.
- There is a rather broad diversity of activities, with some dominant ones, which are bakeries, 12% of rural micro-enterprises, soap production, 11% of rural micro-enterprises, miscellaneous trade (11%). The mechanical metal products group represents only 10% of the portfolio.
- In terms of financial lessons, the project faced the absence of products suitable for medium term equipment financing. This lack made it impossible to achieve some of the objectives. Furthermore, the conditions for entry and access to credit, including the distance from the main partner microfinance institution, Crédit mutuel du Sénégal (CMS), barred access to financing for part of the target public, especially unemployed young people and disadvantage women.

Findings of the project[16] include the following.

- Support to the micro enterprise is justified in regards to its potential of development and its complementarily to rural activities. However it is crucial to take into consideration of marketing aspects focusing on urban areas, as rural markets are quickly saturated and not as profitable as urban markets.
- Relevance of the approach relies on the triple components Training/financing/technical support: support should be adapted according to the rural groups depending on the age of the holders, their location, the sector of activity, the gender, etc.
- Support should also take into consideration of the initial level of the holders in terms of education to adapt the technical, commercial, financial and organizational objectives.

[16] http://www.fidafrique.net/IMG/pdf/Rapport_final_PROMER1.pdf

- The support should focus on adequate geographical areas in terms of entrepreneurship potential and pre-existence of markets in order to improve efficiency of the approach and avoid too costly investments.
- The maching between the offer of rural finance and the needs of rural micro enterprises should be better assessed in order to adapt financing and objectives according to the context.

Agence Française pour le Développement (AFD) in Senegal

Former colonial power France still has close relationship with Senegal and the cooperation is as follows.

Activities are concentrated on Rural Development (19%), Infrastructure and urban development (45%), human development (23%) and mostly composed of financing schemes. In regards to rural development, priorities are focusing on productivity development, consisting of providing support in the selected sectors to develop, financing producers' groups: diversifying cultivation and supporting implementation of the adequate financing tools.

In the frame of AFD's support to rural development, ADDEL project (Appui à la decentralization et au Développement local, Support to Decentralization and local development) aims at improving living conditions and alleviate poverty of rural populations. Objectives are to improve access of populations to basic services (infrastructures, collective equipments and services), reinforce rural local capacities to enhance productivity, increase participation and responsibility of local populations in their own development.

Target-beneficiaries cover the 3 provinces of Bakel, Tambaccounda and Velingara. Methodology consists of identifying rural groups in charge of defining needs and proposing solutions. ADF responds by providing investment funds managed by local committees per region. Mandatory participation from the beneficiaries is calculated according to the amount of funds invested by AFD and should represent 15,25% of the total investment.

Major constraint identified is the capacity of the local committees to manage the projects and reach sustainable development.

Chapter6 Madagascar[1]

With a population of about 18 million inhabitants, Madagascar is now ranking 146th over 177 in the “Human Development Index (HDI)” (UNDP-2005). Since the early 1970’s, the Malagasy economic growth rates were lower than those of the active population. From 1987, economic reforms supported by the International Monetary Fund (IMF) considerably liberalized the economy. Between 1990 and 1995, GNP per capita decreased by 10%. With the return of D. Ratsiraka to power in 1996, liberalization has further proceeded and the negotiations with the IMF and the World Bank started. The structural reforms were implemented to revitalize the economy and the economy recovered owing mainly to the tourism sector, exports of coffee, shellfish and litchis, which depend on strong growth in Europe. On the other hand, the growth mainly benefited the people at the top of the civil society or individuals above the poverty threshold. Except for the province of Antananarivo, all the five provinces became poorer from 1999 to 2001. The poverty reduction in rural areas is the major task for the government.

6.1 The Present Situation of Micro and Small Enterprises (MSE) in Madagascar

6.1.1 Structure of the Economy

Agriculture, including fishing and forestry, is a mainstay of the economy, accounting for 28% of GDP and employing 80% of the population. Exports of apparel have boomed in recent years primarily due to duty-free access to the United States[2]. While the share of agriculture has decreased, those of Industry and Services let by the tourism have increased from 1985 to 2005.

Table6-1 Structure of GDP

	1985	2005
Agriculture	35.1%	28.1%
Industry	13.3%	15.9%
Services	51.5%	56.0%

Source：The World Bank Madagascar At a Glance

6.1.2 Typology of the Informal Sector[3]

The National Institute of Statistics registers 430,000 enterprises of the formal sector. In 2005, 883 new enterprises were created (figures do not take individual enterprises into account), with 80% of the creations in the tertiary sector and 18% in the secondary. Individual enterprises dominate the network of private enterprises, as well as the strong concentration in Antananarivo.

At national level, the informal sector represents 56% of the existing employments. 91,6% of those positions are concentrated in micro and small enterprises of 6 employees and less. 58,7% are self-employed[4].

[1] Currency unit in Madagascar is MGA/FMG1=¥0.062.
[2] https://www.cia.gov/cia/publications/factbook/geos/ma.html#Econ.
[3] Unless otherwise quoted, this section wqas written based on National Institute of Statistics, "L'emploi, le chômage et les conditions d'activité dans les 7 grandes villes de Madagascar", 2000 ("Employment, Worklessness and conditions of activity In Madagascar's 7 Major Urban Centers)
[4] National Institute of Statistics, "L'emploi, le chômage et les conditions d'activité dans les 7 grandes villes de Madagascar", 2000 ("Employment, Worklessness and conditions of activity In Madagascar's 7 Major Urban Centers)

Table6-2 Proportion of employments per sector in 7 major cities

	Antananarive	Antsirabe	Antsiranana	Fiaranantsoa	Mahajanga	Toamasina	Toliara
Public administration	8,2%	9,3%	12,6%	14,5%	9,8%	6,1%	14,5%
Public companies	2,2%	0,9%	8,0%	2,8%	3,6%	13,6%	2,8%
Formal private sector	32,7%	26,0%	31,7%	15,3%	25,6%	32,0%	14,1%
Informal private sector	55,4%	61,9%	46,3%	64,7%	59,3%	46,3%	66,8%
undetermined	1,5%	1,9%	1,4%	2,7%	1,7%	2,0%	1,8%
Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Source : National Institute of Statistics

In 1995, the informal sector represents 123,000 Informal Production Units in Antananarivo[5]. On average, 6 households out of 10 make their living out of their activity in the informal sector. Over 1/3 of the informal production units belong to the industrial sector. 90% of the Informal Production Units are installed in precarious conditions and do not have access to electricity, water, and telecommunications.

Table6-3 Proportion of Informal Unit Productions per sector

Sector	Proportion
Industrial sector	35,0%
Trade sector	39,3%
Service sector	25,7%
total	100,0%

Source : National Institute of Statistics

Informal enterprises employ 189,500 individuals (excluding agriculture). The average number of employees of 123,000 enterprises is 1,5 people. 52% of the employees are women. Only 10% of the employees earn a proper salary, which is a characteristic of the informal sector as opposed to the formal sector. Employees are relatively qualified: average education length is 7 years. Level of education in Madagascar is high, benefiting from a long educational history even prior to the colonial era. A study conducted in a sample of over 140 Micro and Small enterprises[6] shows that over 80% of the entrepreneurs completed secondary and superior education. Related to the level of education of the holders, book-keeping is implemented in 70~80% of the sample enterprises, which is much higher than those of other African countries.

[5] Unless otherwise mentioned, all figures appearing in this section are borrowed from National Institute of Statistics, "Le secteur Informel à Antananarivo, Performances, Insertion, Perspectives", 1995 ("The Informal Sector In Tananarive, Performances, Insertion, Perspectives")

[6] "Les Micro et Petites Entreprises Malgaches, dynamiques et obstacles au développement", Sarah Marniesse, Paris-Sorbonne University, 1998 ("Micro and Small Enterprises in Madagascar, dynamics and obstacles to (their) development")

Table6-4 Level of education of the holders

Level of education	%
None or Primary	19%
Secondary (technical)	7%
Secondary (general)	41%
Superior	34%
Total	100%

Source : Sarah Marniesse, Paris-Sorbonne University, 1998

Employees of the informal sector work on average 41 hours per week and earn 192,000 Fmg per month. But salaries are very heterogeneous and median salary is 54,000 Fmg, which is much lower than that of the official minimum salary of 111,500 Fmg. Households engaged in the private formal sector earn 66% higher than households engaged in the informal sector.

Table6-5 Average income in 7 major cities

unit = thousand fmg	Antananarive	Antsirabe	Antsiranana	Fiaranantsoa	Mahajanga	Toamasina	Toliara
Public administration	526	431	427	476	499	421	373
Public companies	598	729	460	678	458	562	308
Formal private sector	329	311	538	346	520	484	303
Informal private sector	211	169	338	186	251	298	246

Source : National Institute of Statistics

Informal Enterprises do not access to bank services and keep their savings inside. The savings are utilized for maintaining the Production capacity, which is said to be equivalent to 200 billion Fmg. However, the retained earnings are not adequate and capital investment is not made so much.

Informal sector is exclusively focusing on the domestic market and does not help the trade balance. 80% of the demand comes from households, in other words, business relations with the formal sector are very limited, though 40% of the products dealt by the informal sector come from the formal sector.

Competition is fierce among the actors of the informal sector. Less than 2% of the enterprises consider that they have no competitors. But the competition is mostly internal to the informal sector, especially in the trade activities. Only 5% of the informal enterprises are competing with large enterprises of the formal sector. In case of competition between informal and formal enterprises, generally informal enterprises offer lower prices[7].

Increase in input prices also had very severe impact on the informal enterprises. Over 80% of them suffered from a decrease of their sales figures. Strategies of low prices are an obstacle to the development of the informal enterprises, so that the competition only gets tighter without visible benefits to the sector. Financial weakness of the informal sectors is the main reason to explain the lower prices offered by the informal sector.

Major constraints encountered by the informal enterprises are the decline of the demand

[7] National Institute of Statistics, "Le secteur Informel à Antananarivo, Performances, Insertion, Perspectives", 1995.

along with the increase of the competitors, as mentioned by 60% of the enterprises. This shows that the informal sector suffers from macro-economic factors rather than from sectorial competition. In this context, 90% of the enterprises consider that they may disappear if the situation does not improve.

Besides lack of demand, credit appears as one of the major problems for informal enterprises. Difficulty of accessing to credit, or the high costs of credit, is considered by 40% of the enterprises as their major problem. In relations, 45% of the enterprises would ask for support to accessing credit before any type of other support.

6.1.3 Constraints faced by Micro and Small Enterprises

General investment climate of Madagascar has improved drastically since 2001. However, private sectors still have several constraints for further development such as poor infrastructure, low accessibility to credit, unskilled labors. For micro and small enterprises, low accessibility to credit, competitions with imported products, low domestic demand and poor infrastructure are the major constraints for their further development.

6.2 Governmental Support Policy to Promote Micro and Small Enterprises in Madagascar

6.2.1. Policy Framework

Regarding rural development, the government significantly considers the poverty reduction in rural areas where majority of the poor live and formulated a comprehensive rural development strategy called Action Plan for Rural Development" (PADR). PADR aims at improving agricultural productivity and accessing to markets, diversifying agricultural products in order to increase value added, developing infrastructure such as rural roads, irrigation facilities and microfinance), and improving agricultural extension and promoting commercialized agriculture.

As a national development plan, the government formulated Madagasar Action Plan 2007-2012 (MAP) based upon PRSP for rapid economic growth, poverty reduction and enhancement of living conditions. The targeted indicators of MAP from 2005 to 2012 are described as follows[8].

- UN Human Development Index (Ranking): from 146 to 100
- Poverty Rate (% of population living below $2 a day) from 85.1 % to 50%
- Family Size (Fertility Rate): from 5.4 to 3 to 4
- Life Expectancy from 55.5, to 58 to 61
- Literacy: from 63% to 80%
- Percentage of Children Completing (lower secondary): from 10% to 56%
- Secondary School: from 7% to 40%
- Economic Growth: from 4.6%, to 8 to 10%
- GDP (USD): from US$ 5 bullion to US$ 12 billion
- GDP Per Capita (USD): from US$ 309 to US$ 476
- Private Investment (USD): from US$ 600 million to US$ 1.7 billion
- World Bank Business Climate Ranking: from 131 to 80
- Corruption Perception Index: from 2.8 to 5.2
- Households Having Land Title: from 10% to 75%

For the achievement of MAP goals, the following 8 commitments are shown in MAP.

Commitment 1: Responsible Governance

[8] http://www.madagascar-presidency.gov.mg/MAP/?id=11。

Commitment 2: Connected Infrastructure
Commitment 3: Educational Transformation
Commitment 4: Rural Development And Green Revolution
Commitment 5: Health, Family Planning And The Fight Against AIV/SIDA
Commitment 6: High Growth Economy
Commitment 7: Cherish The Environment
Commitment 8: National Solidarity

Productivities of Small and Medium Scale Enterprises (SMES) and handicraft industries are low due to delayed modernization and informal sectors still play an important role in the economy. The government has promoted the development of SMES through the Chambers of Commerce, Industry, Agriculture and Craft Industry and the Chambers of Profession. "Strengthening Domestic Enterprises, SMES and Handicraft industry" is proposed in the "Commitment 6 High Growth Economy". In addition, "Improve Access to Affordable Rural Financing", "Promote Market Oriented Activities", "Diversify Rural Activities", "Increase the Agricultural Value Added and Promote Agribusiness" are proposed in "Commitment 4 Rural Development and Green Revolution". Promotion of Micro and small scale enterprises is thus considered by the government. Table 6-6 shows strategies and activities to tackle these challenges.

Table6-6 Strategies and Activities for Micro and Small Scale Enterprises Development Proposed by MAP

Challenges	Indicators From 2005 to 2012 2005→2012	Strategies and Priority Projects and Activities
Strengthening Domestic Enterprises, SMES and Handicraft industry	• Number of created enterprises • 882→2,000 • Share of informal sector in GDO • 20%→12%	• Project leader is Minister responsible for Industry and Commerce. • Extend the Chambers of Professions to the rural areas. • Strengthening the operating capacity of centers for promotion of craft industry. • Increase the incentives for the integration of the informal sector into the formal sector: training, access to credits and technologies, information about the market. • Draw up and implement the national policy for the promotion of SMIs/SMEs as well as craft industry and trade. • Develop an information systems on employment and activities.
Improve Access to Affordable Rural Financing	Rate of penetration of financial institutions 6%→13%へ	• Extend the network of microfinance and banking institutions. • Promote and adapt the system of credit with joint guarantee. • Support alternative forms of financing. • Support extension into new areas. • Ensure refinancing of microfinance institutions. • Set up agricultural development Fund
"Promote Market Oriented Activities	Synthetic index of the evolution /development of commercialization Index base 2005 =100 to 300 in 2012	• Minister responsible for agriculture is a project leader. • Develop a system for the spreading of information about the market. • Enhance intra and inter-regions domestic trade. • develop infrastructure to provide better access to markets. • Improve the fairness and the fluidity of the market. • Extend the access to the existing international and regional data base networks. • Pass market signals on to producers through media, decentralized communities, and farmers' sector organizations. • Intensify and optimize organization of and participation to shows

		and fairs for the meeting between producers and buyers. • Maintain and build exploitation infrastructure such as abattoirs, cold chains, warehouses and markets. • Facilitate the acquisition of equipment and tools for conditioning and processing agriculture products.
Diversify Rural Activities	Average income of rural households US$123 to US$370	• Minister responsible for agriculture is a project leader. • Conduct research on alternative crop potential and market opportunities. • Encourage diversification of activities for additional income and in order to reduce vulnerability caused by world price fluctuations and bad weather. • Develop and implement an organic agriculture strategy. Identify and develop regional sector specializations. • Promote secondary activities: handicrafts, ecotourism, etc. • Encourage partnerships between research centers and private producers. • Decentralize services of seeds certification. • Organize the supports to new sectors; inputs and technological package. • Identify potential zones and specialize them in organic produce. • Carry out campaigns of information and popularization relating to biological agriculture. • Promote the approach "One Village – One product" within pilot zones, develop leading sectors in the regions.
Increase the Agricultural Value Added and Promote Agribusiness	To be determined.	• Minister responsible for agriculture is a project leader. • Enhance and co-ordinate the agricultural value chain: production and processing. • Set up agribusiness centers (ABCs) to train and support farmers in processing, marketing and supply chain management. • Promote modern production practices (standards and quality). • Develop contractual agriculture between large buyers and small-scale farmers.

Source : http://www.madagascar.gov.mg/MAP/.

6.2.2 Integrated Growth Poles Project

The government, in collaboration with the World Bank, intends to help provide the adequate business environment to stimulate and lead economic growth in three selected regional poles, so that key medium and small-scale enterprises can develop[9].

Government Strategies for facilitating adequate business environment

The government identified three regions where appropriate market conditions could be created to generate high private sector growth by implementing infrastructure development together with institutional reforms. The three regions called growth poles are AntananarivolAntsirabC, Taolagnaro, and Nosy Be. The reform is expected to benefit export processing zones, manufacturing, tourism and mining. It is also expected that the strategy is to be implemented with half of the registered small and medium scale enterprises which is now 408,000. The project includes the following components.

- Access to finance
- Micro, Small and Medium Scale Enterprises (MSME) capacity building
- Strengthening key value chain

[9] The World Report No: 31760-MG、"Project Appraisal Document on A Proposed Credit in The Amount of SDR 85.9 Million (Us$129.8 Million Equivalent) To The Republic of Madagascar for an Integrated Growth Poles Project"、June 14、2005。

- Tourism
- Mining

Access to Finance

Lending to Micro enterprises represents less than two percent of total loan portfolios. MSME are largely unable to access financing through commercial banks. The informal MSME sector which is unable to respond to the requirements of the commercial banks in terms of financial statements, collateral, information, guarantees, etc. and on the other hand, the conservative commercial bank practices which have been inappropriate to meet the requirements of MSMEs. The government utilizes the support from IFC and IDA as leverage and considers new financial services including asset based financing such as leasing and factoring in collaboration with domestic commercial banks. The government also considers a possibility of introducing partial credit guarantee schemes which would cover fifty percent of new MSME loan portfolios and thereby encourage the selected local commercial banks to lend to the sector could be considered. Intense technical assistance would accompany the guarantee scheme to improve the selected banks' lending technologies and operating systems.

MSME Capacity Building

The government proposes training as follows: Sector-Specific Training for Tourism and Related Sectors; training based on modules[10] developed by IFC; Key-sector training; Strengthening of Key Value Chains; Creating a Lease Registry & Possible Amalgamation with Pledge Registry; MSME Registration and investment promotion support through GUIDE. Key value chains are explained as follows.

Strengthening of Key Value Chains

The government considers it important to develop key value chains in the selected three growth poles

(1) AntananarivolAntsirabC

Cotton to export garments; vegetables for export; raffia for tourism and exports.

(2) Taolagnaro

Shell fish and seafood to hotels and export; exotic fruits for export; vegetables for hotels and export.

(3) Nosy Be

Seafood for hotels; fruits & vegetables for hotels; Ylang-ylang for cosmetic producers and exports.

6.3 Support Policy for Micro and Small Scale Enterprises in Madagascar

6.3.1 Access to Financial Services: Microfinance

After the privatization of state banks, it became difficult for enterprises to borrow long-term loans, therefore, they utilize the retained earnings for capital investment. Seven banks dominate the financial systems of Madagascar. Penetration rates of microfinance institutions is as low as 5 % which is about 150,000, but has increased rapidly compared with 1.4 % in 1998. Since mainly rich people are now accessing to microfinance, the government is formulating legal and regulatory framework for microfinance, which is expected to lead to sound and sustainable development of MFI, hence improves the access of the poor to

[10] It covers organizational development and competitiveness, day-to-day management issues such as: controlling costs, customer care, and quality and pricing, etc.

financial services[11]

Presently, there are two types of microfinance providers: one is regulated by the central bank such as banks, microfinance institutions and savings and credit cooperatives, and the other is non regulated ones such as microfinance institutions run by NGOs. These institutions respond to only 5 % of total demand for microfinance[12].

Microfinance Regulations was approved in January 2006 and all the microfinance institutions are obliged to obtain licenses according to the regulation.

Microfinance National Strategy Document

In 2004, the government approved a Microfinance National Strategy Document (Document de Stratégie Nationale de Microfinance, DSNMF) elaborated in partnership with all stakeholders and actors of the sector. The document aims at clarifying the roles and responsibilities of the different actors intervening in the sector. Potential demand in terms of credit is estimated between 275 billion and 1206 billion Fmg over the period 2004~2009, representing a number of potential clients between 172,000 and 592,000[13].

Major expectations are the followings:

- Poverty reduction: improvement of the income of populations living in poverty, development of lucrative activities, improvement of food security ;
- Reach Millennium Development Goals;
- Development and consolidation of Micro and Small Enterprises;
- Promotion of the private sector.

Quantitative results in 2009 are estimated as follows:

- Number of beneficiaries: about 600,000;
- Number of active loans: about 296,000;
- Volume of credits of Fmg 603 billions; and
- Volume of savings of FMg 236 billions

-

The Microfinance National Strategic Document also underlines and insists on the coherence of its objectives with the Poverty Reduction Strategy Paper (PSRP).

Governmental Entities Involved in the Sector

Several governmental entities are in charge of supporting microfinance and MSE projects via the development of microfinance.

- The Ministry of Economy, Finance and Budget (MEFB) ensures the national coordination of the general governmental policies related to microfinance.

- The Ministry of Agriculture, Breeding and Fishery (MAEP) intervenes in the promotion and the development of decentralized financial systems to finance rural activities.

- Two departments of the Ministry are specifically developing microfinance activities to the benefit of specific groups.
  - la Coordination des Activités d’Appui au Crédit Rural (CACR)
  - la Direction de l’Appui à la Professionnalisation des Producteurs (DAPP)

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[11] Madagascar,Development Policy Review, Sustaining Growth for Enhanced Poverty Reduction,February…., 2005,Southern Africa,Africa Region, The World bank。

[12] The World Report No: 31760-MG、”Project Appraisal Document on A　Proposed Credit in The Amount of SDR 85.9 Million (Us$129.8 Million Equivalent) To The Republic of Madagascar for an Integrated Growth Poles Project”、June 14、2005。

[13] Source : Document de Stratégie Nationale de Microfinance, 2004

National Coordination of Microfinance (Coordination Nationale de la Microfinance, CNMF) ensures the coordination of governmental approach regarding microfinance, promotes the sector and monitors the activities of the different stakeholders. Collaboration with the Ministry of Finance and the Ministry of Agriculture is strong, especially with the 2 departments mentioned above. Other activities include:

- Management of the information resources center and the data base;
- Organization of symposiums on Microfinance; and
- Permanent secretary of the Piloting Committee of the Microfinance National Strategy.

Legal Framework

Following retrieval of development banks in the 1990's, the Madagascar government took interest in capacity of Saving and Credit Unions as a means to compensate the absence of financial services in rural areas. With the support of the World Bank, the government defined policies to develop the Microfinance sector starting with Execution project PATFR/ADMMEC until 1997, followed by the Microfinance Project between 1998 and 1999, and finally the creation of the Microfinance Project Execution Agency (AGEPMF, Agence d'Exécution du Projet de Microfinance) in 1999. AGEPMF project is to last for 15 years and was officially launched in June 1999.

Meanwhile, laws were implemented in 1995 and 1996 respectively targeting credit entities (law 95-030) and mutualist institutions (law 96-020). Any financial institution in Madagascar, whatever its institutional type of structure (union, bank or other) is supervised by the Financial and Banking Supervision Committee (CSBF, Commission de Supervision Bancaire et Financière). According to the laws, any registration request is submitted to CSBF by the intermediary of the Professional Association of Financial Mutualist Institutions (APIFM, Association Professionnelle des Institutions Financières Mutualistes). Capitalization and Solvability ratios are defined by laws, but conversion rates of savings / credit remain under the decision of financial institutions.

As per law implemented in 1996, CSBF (Commission de Supervision Bancaire et Financière) is in charge of monitoring the activity and practices of credit institutions. This includes supervision of the credit conditions and control of the financial situation of the institutions. Articles 41 to 49 of the law define the range of responsibilities of the committee, including:

- Registration of the MFI;
- Definition of prudential and management regulations, declaration duties, book-keeping procedures;
- Supervision authority (including on-site audits); and
- Disciplinary authority (sanctions in case of non-respect of the regulations).

Following the first text of a law regarding Unions promulgated in 1996 (law n°96-020), the government broadened existing regulations to non-mutualist institutions as well in 2005 (law n° 2005-016), aiming at increasing the number of beneficiaries of microfinance services. This law makes the distinction among three levels of MFI according to their size, the complexity and the volume of the operations, and whether they collect savings from their members or general customers .

- Level 1 : Unions recognized by the Bank and Financial Supervision Committee (Commission de Supervision Bancaire et Financière, CSBF), that should keep a ceiling of collected savings collected
- Level 2 : whatever their institutional structure (union or not), institutions of intermediary size allowed to collect savings from the public and organized as a stock company

including several stakeholders, that should also be “certified” (“certificat” from the CSBF

- Level 3: MFI closer to banks, allowed to collect savings from the public and subject to closer monitoring, that should be “accredited” (“agreement” from the CSBF)

Each level is characterized by a different level of risk and is submitted to monitoring systems adapted to each risk level. Basically, Level 1 MFI should respect control procedures that remain internal, while level 2 and 3 MFI are submitted to the supervision of the CSBF and should keep prudential ratios as well as specific management procedures.

Present Situation of Microfinance

Emergence of Microfinance institutions in Madagascar started at the end of the 1980’s, partly motivated by the weaknesses of the banking sector in rural areas. This explains why Microfinance in Madagascar at first exclusively existed in rural areas. First institutions were created over the first half of the 1990’s with the backup of:

- The government, in partnership with the World Bank, especially aiming at strengthening rural development via dynamic financial networks ;
- Donors, implementing several credit programs from the early 1990’s (eg the French Development Agency, the World Bank, GTZ, PNUD/FENU, the European Union, …) ;
- Technical providers specialized in microfinance and experienced via activities in other African countries.

According to statistics of Professional Association of Mutualist Financial Institutions (Association Professionnelle des Institutions Financières Mutualistes, APIFM) published in December 2003, Credit and Saving Unions represent 380 branches mobilizing over EUR 8 million of credit and EUR 8,5 millions of savings and 497 members. Growth is strong and as of June 2006, microfinance network in Malagascar composed by 413 institutions representing 273,558 members and savings of 10 million EUR. Combined with allocations from donors, those results allowed microfinance institutions to grant credits of over 15,3 million EUR of loans.

In a global context where less than 3% of the population holds a bank account (one of the worldwide lowest access rate to financial services) and where 80% of the population is living in poverty, the demand for microfinance services is growing and each year, the number of members increases: from January to September 2006, microfinance network acquired 40,000 new customers, representing an increase of 17% over the period. Penetration rate of microfinance services in Madagascar households has risen up to 7,6% in 2006 against 6,5% at the end of 2005[14].

Mutualist Unions, relying on members

- AdéFi, Action for the development and the financing of micro enterprises (Action pour le Développement et le Financement des micro entreprises)
- AECA, Association of self-managed Saving and Credit counters (Association des caisses d’Epargne et de Crédit Autogérées)
- CECAM Mutual Agricole Saving and Credit Counter (Caisse d’Epargne et de Crédit Agricole Mutuels)
- OTIV (Ombona Tahiry Ifampisamborana Vola)
- TIAVO (Tahiry Ifamonjena Amin’ny Vola).

Table6-7 shows profiles of Mutualist Unions.

[14] Source : French Economic Mission In Madagascar, Lettre Sectorielle, September 2006

Table6-7 Results of Mutualist Unions (as of 31st December 2003)

Number of counters	380
Number of members	179,497
Total deposits (Savings)	99,3 billion Fmg
Total Credit	97,0 billion Fmg
Active clients	36,994
Unrecovered credits	8,07 billion Fmg
Unrecovered rate	8,3%

Source : Document de Stratégie Nationale de Microfinance, 2004

Non-mutualist unions, relying on "clients

- Société d'Investissement pour la Promotion des Entreprises à Madagascar (SIPEM) / - - - Investment Society for the Promotion of Enterprises in Madagascar
- Association pour la Promotion de l'Entreprise à Madagascar (APEM/PAIQ) / Association for the Promotion of Enterprises in Madagascar
- Vola Mahasoa
- Entreprendre à Madagascar (EAM)
- Caisse d'Epargne de Madagascar (CEM)

Table 6-8 shows profiles of Non-mutualist unions.

Table6-8 Results of non-mutualist unions
(as of 31st December 2003)

Active clients	10,991
Total credits	9,1 billion Fmg
Uncovered credits	752,3 million Fmg
Uncovered rate	8,3%

Source : Document de Stratégie Nationale de Microfinance, 2004

NGOs offering microfinance products[15]

- Haingonala (local NGO, partner of UNDP in Ambrositra)
- CDA (Comité de Développement d'Andohatapenaka, local NGO active in Antananarivo)
- HARDI (French-Madagascar Solidarity NGO)
- CEFOR ("Crédit-Epargne-Formation", Local NGO offering Microfinance services)
- SOAHITA (Local NGO)
- EAM (Entreprendre A Madagascar)

Five networks of MFI are registered in the Bank and Financial Supervision Committee according to the law 96-020. The 5 networks are: ADEFI, AECA, CECAM, OTIV and Antananarivo and TIAVO. Other non-registered networks complain about the length and delays of the process of registration.

[15] Also called Proximity Financial Organizations (Organisations Financières de Proximité, OFP)

Types of MFI

Table 6-9 comes from a recent study[16] conducted by CAPAF (Programme de Renforcement des Capacités des Institutions de Microfinance en Afrique Francophone, Reinforcement program of Microfinance Institutions' capacities in Francophone Africa) in partnership with APIFM (Professional Association of Madagascar Microfinance Institutions) about 17 MFI representative of the environment of Microfinance Institutions in Madagascar.

Table6-9 Major Microfinance Institutions in Madagascar

Volumes represented	sample of 17 MFI
Savings Clients	180 431
Savings Amount (Fmg)	113 419 370 900
Credit Clients	46 314
Credit Amount (Fmg)	107 517 113 000
Total Number of employees	1 138
Number of counters	328

Source : CAPAF, 2005

According to the sample, over one third of the MFI hold between 5,000 and 10,000 saving clients, while 40% of the MFI generate over 10,000 savings clients. In terms of credit, over half of the MFI have between 1,000 and 2,999 credit clients (please refer to Table 6-10).

Table 6-10 Proportion per number of Saving Clients

Number of clients	Number of MFI	Proportion
above 20,000	3	21%
10,000-19,999	3	21%
5,001-9,999	5	36%
0-4,999	3	21%
Total	14	100%

Source：CAPAF、Market Survey of Services to Microfinance Institutions In Madagascar,June 2005

Concerning the volume of operations, 60% of the sample collects over 5 billions Fmg of savings, while 20% collect over 20 billions. Volumes below 1 billion represent 30% of the sample (Please refer to Table 6-11).

Table 6-11 Proportion per number of Credit Clients

Number of clients	Number of MFI	Proportion
above 5,000	2	13%
3,000-4,999	3	19%
1,000-2,999	9	56%
0-999	2	13%
Total	16	100%

Source: CAPAF、Market Survey of Services to Microfinance Institutions In Madagascar,June 2005

[16] Market Survey of Services to Microfinance Institutions In Madagascar, CAPAF, June 2005

Globally, the proportion of MFI for each range of savings amounts is fairly balanced. In terms of credit amounts distributed, half of the MFI are allocating volumes below 5 billions Fmg, and about 25% above 10 billion Fmg. Here again, the proportion for each range seems to be fairly balanced (Please refer to table 6-12).

Table 6-12 Proportion per Credit amount

above 15 billions	2	12%
10-15 billions	2	12%
5-10 billions	5	29%
1-5 billions	4	24%
0-1 billion	4	24%
total	17	100%

Source：CAPAF、Market Survey of Services to Microfinance Institutions In Madagascar,June 2005

Geographical distribution of MFI shows that half of the sample operate both in rural and urban areas, while the remaining 50% are equally divided between MFI specialized either in rural or in urban areas.

Table6-13 Geographical distribution of MFI

Type of area	Number of MFI	Proportion
Rural	4	24%
Urban	4	24%
Both	9	53%
total	17	100%

Source: CAPAF、Market Survey of Services to Microfinance Institutions In Madagascar,June 2005

In terms of number of years of operation, the average duration of existence is about 8.6 years, which coincides with the fact that most MFI started operation since the mid-1990's when MFI experienced a strong impulse (Please refer to Table 6-14).

Table6-14 Maturity of MFI in years of existence since creation

Number of years of activity	Years
minimum	2,9
maximum	15,0
average	8,6

Source: CAPAF、Market Survey of Services to Microfinance Institutions In Madagascar,June 2005

Number of branches per MFI is very concentrated in the range 16 to 30 (nearly half of the sample). Less than 20% of the sample has more than 30 counters (Please refer to Table 6-15).

Table6-15 Number of Brances per MFI

Number of counters	Number of MFI	Proportion
above 30	3	18%
16-30	8	47%
6-15	4	24%
1-5	2	12%
total	17	100%

Source：CAPAF、Market Survey of Services to Microfinance Institutions In Madagascar,June 2005

Observation of the rates of managers to the number of employees shows that the larger the MFI, the lower the numbers of managers to total numbers of employees, as is shown in Table 6-16. Same trend is observable concerning the rate of agents who work in directly work with clients.

Table6-16 Proportion of managers and agents over the number of employees of MFI, per size of MFI

Number of employees	number of MFI	Management rate(1)	Customers' service rate(2)
1-20	3	22,7%	65,6%
21-49	4	24,2%	67,3%
50-99	6	8,5%	62,6%
100-149	3	7,1%	50,1%
above 150	1	3,2%	51,6%
Total	17	14,1%	61,4%

Note: (1) management rate : number of managers / total number of employees

Note: (2) customers' service rate : number of agents (directly serving customers) / total number of employees

Source：CAPAF、Market Survey of Services to Microfinance Institutions In Madagascar,June 2005

Presentation of the 5 Major Microfinance Networks

(1) Caisses d'Epargne et de Crédit Agricole Mutuel (CECAM)

CECAM network is composed of 7 regional unions covering 6 zones over 4 provinces of Madagascar. Branches are organized in 3 levels: basic branches, regional unions, and an interregional union playing the role of the central counter for the network. This Interregional union decided to get a status of financial institution. As of 31st December 2003, the network was composed of 169 basic branches representing 57,783 members. In terms of credit, CECAM is the national leader with an amount of credit is Fmg 42 billions, which represents 43% of the total amount of credits granted by Mutualist Unions.

In terms of savings, CECAM is developing products targeting large companies and individuals such as the term deposits with interest rates by far are higher than those of commercial banks. Portfolio quality is satisfactory with a risk portfolio rate is below 10% of current credits.

CECAM network is supported by ICAR, an organization jointly created by FERT (French International Cooperation NGO originally created by professional associations concerned with Food security issues) and Crédit Agricole (France).

(2) Ombana Tahiry Ifampisamborana Vola (OTIV)

Intervening in 3 provinces of Madagascar, OTIV network is composed of 5 distinct and independent networks (DIANA and SAVA in the province of Diégo Suarez, Toamasina and

Lac Alaotra, and Antananarivo). As of 31st December 2003, OTIV were composed of 112 branches and 100,435 members, which represents over half of the total number of members of MFI relying on members.
Volume of deposits is reaching Fmg 76 billions, which also represents 77% of all deposits of MFI. In regards to credit distribution, OTIV are placed second with a volume of Fmg 30 billions as of December 2003. Weakness of the network, however, is the high rate of the risk portfolio at 22%. Technical partner is Canadian NGO , Développement International Desjardins.

(3) Action pour le Développement et le Financement des microentreprises (AdéFI)

AdéFi was the first saving and credit union to be accredited back in 1999 by the CSBF. It is composed of 8 regional offices located in 4 provincial counties and 4 other major cities. Adéfi specialized in financing urban micro enterprises, providing credit via 31 credit offices. 2 main products are available, which target at micro and small enterprises with a ceiling of Fmg 30 millions and duration of 3 to 18 months, and at small and medium-sized enterprises with credits amount of between Fmg 30 million and 100 millions and duration of 18 to 36 months.

In terms of activities, this institution can be classified as 3rd with a volume of credits of Fmg 21,5 billions as of 31st December 2003. Risk portfolio rate is 4,4%, which remains decent. Adéfi has been technically independent since 1998 and gets support from ACEP-Développement[17].

(4) Association des Caisses d'Epargne et de Crédit Autogérées (AECA)

AECA network is composed of 2 unions localized in the one province of Mahajanga. With the support of CIDR (French associative group), AECA introduced a system of self-management among its members. The performance of the 2 unions remains modest but the profitability of the operations is very fragile. Altogether, savings collected by the network represent 0,3% of the total volumes collected by MFI. Access to credit is essentially depends on bank refinancing.

(5) Tahiry Ifamonjena Amin'ny Vola (TIAVO)

The network of TIAVO counters is localized in the province of Finarantsoa and covers several villages around the regional capital and the South-East coast. TIAVO network is supported by IRAM (French associative research organization) is composed of 36 branches representing of 13,954 members as of 31st December 2003. Total credit amounts are modest with a volume of Fmg 4,4 billion while total savings amounts represent a volume of Fmg 6 billions.

Banks

Until the emergence of MFI in the early 1990's, BTM, a public bank since 1976, was the only bank intervening in the area of Microfinance. Microfinance activities were limited to credits to the sector of agriculture and the number of beneficiaries was limited to only of the rural population. Later privatized and recalled Bank of Africa (BOA), it continues microfinance activities to this day.

Besides the Central Bank of Madagascar, the classic financial system is composed of 7 commercial banks including the above mentioned BOA, 2 financial institutions and 4 insurance and social security institutions. Those banks, entirely privatized or recently privatized, are the following (Please refer to Table 6-17).

[17] Alliance de Crédit et d'Epargne pour la Production, operator specialized in creating and supporting Microfinance institutions focusing on MSEs). Support to AdéFI includes coaching, transfer of technology and training services. One of the objectives is to help AdéFI to better accompany MSEs growth (See also : http://www.afd.fr/jahia/webdav/site/myjahiasite/users/administrateur/public/seminaires/afd-ocde-06-05/Discussion-PME_Perreau.ppt)

Banky Fampandrosoana ny Varotra –Société Générale (BFV –SG)
Banque Malgache de l'Océan Indien (BMOI)
Bankin'Ny Indostria – Crédit Lyonnais (BNI – CL)
Banky ny Tantsaha Mpamokatra - Bank Of Africa (BTM- BOA)
Compagnie Malgache de Banque (CMB)
State Bank of Mauritius (SBM)
Union Commercial Bank (UCB)

Table6-17 Results of the 7 Banks in Madagascar (as of 31st December 2002)

Number of offices	106
Number of active clients	208 300
Number of employees	2 884
Total Savings	Fmg 3,941 billions
Total Credit	Fmg 2,434 billions
Assets	Fmg 7,153 billions

Source: Document de Stratégie Nationale de Microfinance, 2004

Banks such as BFV-SG and BNI-CL are showing an interest in microfinance. Caisse d'Epargne of Madagascar, being transforming itself into a financial institution, is planning to develop credit products in response to MFI's needs.

6.3.2 Major donors to support programs of Micro and Small Enterprises

Business Development Services (BDS)
The ultimate objective of donors when supporting Business Development Services (BDS) is to improve the performance of Micro and Small Enterprises so as to strengthen economic growth, to increase employment rates, to reduce poverty and to reach social objectives. Business Development Services include the following components.

- Training
- Consultation and technical support
- Marketing support
- Information sharing
- Development and transfer of technology
- Promotion of Business Relation

The French Development Agency, in collaboration with the Centre d'information technique et économique (the Research and Technological Exchange Group) which was established in 1996, has provided small and medium scale enterprises with strategic, economic, technical and commercial information. They are:
- Production of information tools using traditional and digital supports;
- Development of a documentary study service in response to entrepreneurs' requests;
- Organization of professional meetings and help with professional structuring;
- In-depth studies of sectors, markets and so on; and
- Mobilization of local and/or foreign experts to intervene within enterprises directly.

The intervention methodology to benefit enterprises in general was initially tested in the food-processing sector alone. It is now expanding to other promising sectors (crafts, construction, textile, etc.). Today, CITE is turning towards the creation of a consultancy resource centre (local consultancy firms, consultants, and outside structures) in order to strengthen skills and thus improve local enterprise intervention capacity. Initially CITE concentrated in the capital, but now has for several years been expanding its intervention capacity to the ensemble of the country. In partnership with French projects and with other development cooperation agencies, specialized information "shops" for micro enterprises are being set up[18].

The recent study[19] conducted by CAPAF and APIFM about 17 MFI representatives of the market shows that among all services, training sessions seem to be dominating the offer, representing 87% of the projects mentioned for the past 3 years. Training sessions cover a specific theme targeting groups of 15 to 20 people coming from several MFI, as is shown in Table 6-18.

Table6-18 Shows training components provided for MFI.

rank	Theme	Number of projects	Proportion
1	Financial control / risk management	11	10%
2	Management	10	10%
3	Business Plan / Financial planning	9	9%
4	Financial analysis	9	9%
5	Unpaid credits / interest rates	8	8%
6	Marketing	7	7%
7	Development of new products	7	7%
8	Technical Banking Institute	6	6%
9	Book-keeping	5	5%
10	Credit analysis	5	5%
11	Garantee and claim	5	5%
12	CNFPB	5	5%
13	Governance	4	4%
14	Cash management	4	4%
15	Management Information System	2	2%
others	Others	8	8%

Source：CAPAF 、Market Survey of Services to Microfinance Institutions In Madagascar, June 2005

Technical support projects targeting at individual MFI contains the following subjects: Book-keeping, Management Information System, Business Plan / Financial planning, Staff exchange / study visits, Communication.
Total number of microfinance-related projects is 120 divided between Training sessions and Technical support, an average of 7 projects per MFI over the past 3 years. Training sessions cover a specific theme targeting groups of 15 to 20 people coming from several MFIs. Technical support is generally personalized per MFI and includes the production of a “finalized product” that can be a guide of procedures, an audit report, etc. Main service providers are shown in Table 6-19.

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[18] MINISTÈRE DES AFFAIRES ÉTRANGÈRES、Supporting Sustainable Development Through Local Enterprises The French Ministry Of Foreign Affairs' Strategy、P.13。

[19] Survey of Services to Microfinance Institutions In Madagascar, CAPAF, June 2005

Table6-19 Providers of Training to MFI

Provider		No. of providing services	Proportion
APIFM	Association Professionnelle des Institutions Financières de Madagascar	42	37%
AGEPMEF	Agence d'Execution des Projets de Microfinance	27	24%
BIT	Bureau International du Travail	6	5%
CNFPB	Centre National de la Formation de la Profession Bancaire	5	4%
UNDP	United Nations Development Program	3	3%
CRS	Catholic Relief Services	3	3%
DID	Développement International Desjardins	2	2%
CEFEB	Centre d'Etudes Financières, Economiques et Bancaires	1	1%
others	others	24	21%
Total		113	100%

Source：CAPAF、Market Survey of Services to Microfinance Institutions In Madagascar, June 2005

6.4 Major Donor Supports for Promotion of Micro and Small Enterprises

Madagascar is heavily dependent upon international donors. National income in 2005, excluding contributions from donors, is about 560 million EUR. In general, contribution of major international donors to all sectors was about 550 million EUR. The largest donor is the World Bank with a contribution of about 189 million EUR in 2005, followed by the European Union (137 million EUR). Table 6-20 shows areas of cooperation.

Table6-20 Allocation of resources per sector (2005)

Sector	%
Infrastructures and transportation	29%
Macroeconomic support	25%
Health	14%
Rural development	12%
Education	5%
others	15%
total	100%

Source: French Economic Mission in Madagascar, 2006

Almost all major international donors support microfinance institutions (African Development Bank, World Bank, Swiss Cooperation, European Union, United Nations Equipment Fund, International Fund for Agricultural Development, International Labor Organization, UNDP, USAID and the French Development Agency). Among them, the World Bank is occupying a key position in microfinance support programs due to the weight of its budgets and its collaboration with the government to implement the programs.

(1) World Bank Programs

In the frame of its Financial Sector Assessment Program, the World Bank contributes to the analysis and the global development of the financial system at all levels:

- Micro-level (Direct service providers) : microfinance institutions, banks, NGOs, Postal Savings, Caisse d'Epargne and other providers of the agriculture sector for example, whatever belonging to the formal or the informal sector

- Meso-level (Technical assistance services providers): audit bureaus, professional associations, information management system providers, specialized consultants, but also institutions managing credit lines
- Macro-level (Governmental level) : politic and legal framework, supervision (interest rates policies, specific laws, juridical system, etc)

The project, executed by the Microfinance Project Execution Agency (Agence d'Exécution du Projet Microfinance, AGEPMF), consists of an Evolutive Credit Program consisting of 3 phases that are to be implemented in 15 years, aims at:

- Improving the juridical and legal frame related to MFI;
- Implementing 6 regional MFI networks; and
- Reinforcing microfinance MFI.

Lessons learned from the World Bank experiences were the followings.

- Improve local staff expertise: due to its key-role, local World Bank team in Madagascar should follow additional trainings on microfinance to develop its expertise.
- Discuss results of the evaluation on PSDR project with various microfinance actors, as the project is felt as a contradiction to the recommendations of the National Strategy supported by AGEPMF.
- Increase its cooperation with other donors and participate to the creation of a capacity reinforcement fund targeting Decentralized Financial Systems with the French Development Agency, UNDP/FENU and other major donors.
- Further support microfinance projects with a reinforced technical support by financial experts.
- In coordination with the French Development Agency, MCA and USAID, pursue the support to CSBF and continue integrating microfinance in the overall financial frame.

(2) French Development Agency

Financial support is benefiting 3 MFI (CECAM, AdéFI, and Vola Mahasoa). Total budget of the support is EUR 7 millions. Part of the funds was allocated to CSBF to support the working groups aiming at improving the legal frame.

(3) International Fund for Agricultural Development

Since 1979, IFAD has financed 11 rural development programmes and projects in Madagascar, for a total amount of US$119,7 million. Current projects are designed to strengthen farmers' organizations, improve poor people's access to rural credit and markets and increase production. Three projects are currently ongoing.

- Project to Support Development in the Menabe and Melaky regions is supporting the government in its reform of the land-use rights and titling system.
- Rural Income Promotion Program is designed to improve market access for small-scale producers, add values to their products and intensify and diversify agricultural production.
- Upper Mandraré Basin Development Project has the objective of raising farm and off-farm incomes for rural populations in the project area, to improve their living conditions and reinforce food security.

(4) UNDP/ UNEF (United Nations Equipment Fund)

- Guarantee funds projects to support collaboration between banks and MFI and technical support to MFI.
- Development of "new territories" consisting of implementing a decentralized financial system in the region of Ambato Boeni.

- Development of new financial products and support to promising MFI in the frame of the “MicroStart” program.
- Support to income generating activities via the Poverty Reduction fund (RPPMED) benefiting MFI networks TIAVO, CECAM and HAINGONALA.

With the financial support of UNDP, the credit component of the project is targeting the provinces of Fianarantsoa and Tuléar in the South part of Madagascar. Lines of credit worth USD 500,000 aims at financing 3 types of credit: seasonal credit, working capital and equipment credit. Lines of credit are allocated via the “Income Generating Activities Supporting Fund” (Fonds d’Appui aux Activitiés Génératrices de Revenu, FAGR) to 3 MFI (CECAM, Haingonala, and TIAVO) with prior approval from UNDP to distribute credits to the targeted populations.

(5) IFC

IFC opened SME Solutions Centers in Madagascar. SME Solutions Centers is to provide various assistance in the form of short and long-term loans to SME, capacity building, and improvement of business environment.
The coordination of donors in the area of microfinance was created in July 2001 and was formalized via an agreement memorandum signed by all heads and directors of International Cooperation Agencies including the French Development Agency, the World Bank, the International Labor Organization, the Swiss Cooperation, the International Fund for Agricultural Development, UNPDP/UNEF and USAID.

Appendix

Coutnry	General Information					Contact				OUTREACH & IMPACT								FINANCIAL INFORMATION IN US$								
										OUTREACH INDICATORS	Loan				Savings			Balance Sheet				Financing Structure				
	Name of MFIs	Foundation	Status	Regulation	Percentage of operations comprised by microfinance	Address	Tel	Fax	Email	Number of Staff	Number of Active Borrowers	Average Loan Balance per Borrower (US$)	Woman Borrowers (%)	Average Loan Balance per Borrower/ GNI per Capita (%)	Number of Savers	Average Savings Balance per Saver (US$)	Average Savings Balance per Saver/ GNI per Capita (%)	Gross Loan Portfolio (in US$)	Total Assets (in US$)	Savings (in US$)	Total Equity (in US$)	Capital / Asset Ratio	Debt / Equity Ratio	Deposits to Loans	Deposits to Total Assets	Gross Loan Portfolio / Total Assets
Madagascar	Otiv Alaotra	1996	Cooperative/Credit Union	Yes	91-100%	Union des OTIV Avaradrova AMBATONDRAZAKA TOAMASINA Madagascar	+261 20 54 812 55	+261 20 54 812 55	otivalaotra@wanadoo.mg	84(31/12/05)	4,663	607	46.60%	209.45%	16,539	74	25.56%	2,832,271 (31/12/05)	3,490,266	1,225,785	969,756	27.78%	259.91%	43.28%	35.12%	81.15%
	Otiv Diana	2001	Cooperative/Credit Union	Yes	91-100%	11 Rue Château d'eau ANTSIRANANA I ANTSIRANANA 208 Madagascar	261 20 82 213 03	261 20 213 36	otivdiego@blueline.mg	61(31/12/05)	1,015	623	n/a	214.84%	16,433	83	28.63%	632,376 (31/12/05)	2,311,141	1,364,473	451,528	19.54%	411.85%	215.77%	59.04%	27.36%
	Otiv Sambava	1998	Cooperative/Credit Union	Yes	91-100%	Sambava centre en face BFV-SG BO 119 case 032 Sambava Antsiranana Madagascar	+261 20 88 932 15	+261 20 88 922 16	otivsava2@wanadoo.mg	57(31/12/05)	1,773	298	9.50%	102.73%	17,429	84	28.95%	528,220 (31/12/05)	2,383,858	1,463,230	515,330	21.62%	362.59%	277.01%	61.38%61.38%	22.16%
	Otiv Tana	1996	Cooperative/Credit Union	Yes	91-100%	Lot IVS 17 Antanimena ANTANANARIVO ANTANANARIVO 101 Madagascar	261 20 22 290 68	261 20 22 287 04	otivtnr@blueline.mg	138(31/12/05)	2,284	629	53.20%	216.96%	46,255	65	22.38%	1,437,021 (31/12/05)	4,043,922	3,001,790	463,606	11.46%	772.28%	208.89%	74.23%	35.54%
	Otiv Toamasina	1995	Cooperative/Credit Union	Yes	91-100%	Union des OTIV Toamasina 25 Rue de la Liberation BP 598 TOAMASINA 501 Madagascar	261 20 53 323 05	261 20 53 323 05	otiv.tmv@blueline.mg	154(31/12/05)	1,335	601	46.40%	207.14%	28,202	82	28.42%	801,949 (31/12/05)	2,952,910	2,323,996	154,430	5.23%	1,812.14%	289.79%	78.70%	27.16%
Senegal	Alliance de Credit et d'Epargne pour la Production	1987	Cooperative/Credit Union	Yes	91-100%	35 Avenue Bourguiba B.P. 5817 Dakar Senegal	221 825 29 32 221 825 29 33	221 25 29 35	acep@telecom_plus.sn	125(31/12/05)	18,090	1975	67.10%	278.20%	25,331	65	9.15%	35,731,875 (31/12/05)	38,008,991	1,646,390	24,422,643	64.25%	55.63%	4.61%	4.33%	94.01%
	CréditMutuelduSénégal	1988	Cooperative/Credit Union	Yes		ruedeFatick(PE-17),exruedesEcrivains PointE BP28052 DAKAR Senegal	+2218694848	+2218694849	cms@sentoo.sn	318(31/12/05)	44,051	1284	17.60%	180.88%	190,462	306	43.13%	56,573,110 (31/12/05)	86,559,958	58,325,951	16,995,389	19.63%	409.31%	103.10%	67.38%	65.36%
	InstitutionMutualisteCommunautaired'EpargneetdeCreditTHIES	2001	Cooperative/Credit Union	n/a	91-100%	Randoulene Thies Quartier Nietty Cadd Thies Senegal	8652021	8652050	imcecda.ccf1@sentoo.sn	16(31/12/03)	1,261	453	35.80%	82.35%	4,029	92	16.72%	571,122 (31/12/03)	907,359	370,573	367,241	40.47%	147.07%	64.89%	40.84%	62.94%
	Programme d'Appui aux Mutuelles d'Épargne et de Crédit au Sénégal	1995	Cooperative/Credit Union	Yes	91-100%	Cité Fadia Plle n ° 4 Dakar Senegal	(221) 839 86 60 (221) 835 92 06		pamecas@arc.sn	279(31/12/05)	85,104	329	60.00%	46.28%	203,601	85	12.03%	27,964,617 (31/12/05)	34,109,846	17,393,563	9,060,975	26.56%	276.45%	62.20%	50.99%	81.98%
	Réseau des mutuelles d'épargne et de crédit de l'UNACOIS	1997	Cooperative/Credit Union	Yes	91-100%	9 Rue Valmy X Petersen 9, route de l'aéroport Léopold Sédar Senghor Dakar Senegal	00 221 867 21 95	00 221 867 21 95	remecu2003@yahoo.fr	29(31/12/03)	13,996	106	27.20%	19.27%	20,116	79	14.38%	1,483,471 (31/12/03)	3,793,554	1,591,418	440,590	11.61%	761.02%	107.28%	41.95%	39.11%
Uganda	Centenary Rural Development Bank Ltd.	1983	Bank	Yes	91-100%	Plot7EntebbeRoad P.O.Box1892 Kampala Uganda	+256-41-251275	256-41-232393		847	57880 (31/12/05)	916(31/12/05)	n/a	327.21%(31/12/05)	488213(31/12/05)	199(31/12/05)	0.7099	53028738 (31/12/05)	121843127	97040572	16275037	0.1336	6.4865	1.83	0.7964	0.4352
	FINCA Uganda	1992	Non bank	Yes	91-100%	Plot22BenKiwanuka POBox24450 Kampala Uganda	25641231134 25631262372/3	25641340078	finca@finca.or.ug	280(31/08/05)	42,474	136	88.40%	48.72%	39,951	61	21.75%	5,794,404 (31/08/05)	8,424,156	2,433,396	1,414,255	16.79%	495.66%	42.00%	28.89%	68.78%
	Uganda Microfinance Limited	1997	Non bank	Yes	91-100%	Plot 49/51 Bukoto Street - Kamwokya P.O. Box 10184 Kampala Uganda	+256 41 531377	+256 31 262 436	ugandamu@umu.co.ug	323(31/12/05)	31,145	364	50.90%	129.87%	58,127	62	22.30%	11,325,366 (31/12/05)	16,468,096	3,629,407	4,165,472	25.29%	295.35%	32.05%	22.04%	68.77%
	PRIDE Uganda	1995	Non bank	No		PO Box 7566 Kampala Uganda	256 41 346297 256 41 346147		pride@mail1.starcom.co.ug	145(31/12/00)	25,620	235	59.00%	83.87%	32,982	n/a	n/a	6,016,287 (31/12/00)	5,036,020	n/a	2,590,256	51.43%	94.42%	n/a	n/a	119.47%
	Uganda Finance Trust Limited - formerly Uganda Women's Finance Trust	1984	Non bank	No	91-100%	Plot 59, Buganda Road P.O. Box 6972 Kampala Uganda	(256) 41-341-275 (256) 41-255-146	(256) 41-255-144	uwft@utlonline.co.ug	217(31/12/05)	17,052	431	70.00%	154.00%	78,707	33	11.83%	7,352,998 (31/12/05)	12,288,555	2,606,207	2,293,153	18.66%	435.88%	35.44%	21.21%	59.84%
Zambia	CETZAM Opportunity	1998	Non bank	No	91-100%	4thFloorMukubaPensionHouse, DedanKimathiRoad, PrivateBagE760 Lusaka Zambia	+2601222980 +2601222991	+2601222961	info@cetzam.com.zm imutalima@cetzam.com.zm	58(31/03/06)	5469	381	0.62	n/a	0	n/a	n/a	2,081,364 (31/03/06)	2412342	0	1885759	0.7817	0.2792	0	0	0.8628
	FINCA Zambia	2001	NGO	No	91-100%	Plot1215/3MukontekaClose OffGreatEastRoad RhodesPark Lusaka Zambia	+260-1-251736	+260-1-251736	psegawa@villagebanking.org		99(31/08/05)	12,751	n/a	98.00%	13.67%	0	n/a	854,172 (31/08/05)	1,381,078	0	702,455	50.86%	96.61%	0.00%	0.00%	61.85%
	MicroBankers Trust	1996	Non bank	Yes		No 37 Zambezi Road Roma Postal code 51122 Lusaka Zambia	+ 260 1 291 393	+ 260 1 290 852	mbt@microlink.zm	21(31/12/05)	6,354	128	69.80%	26.18%	15,015	1	0.28%	814,999 (31/12/05)	2,618,409	20,812	2,408,807	92.00%	8.70%	2.55%	0.79%	31.13%
	Pulse Holdings Limited	2001	Non bank	No	91-100%	Plot No. 9696 East Road, Off Mumali Road Chudleigh Lusaka P.O Box RW 51269 Zambia	260 1 295 642 260 1 295 667	260 1 295 642	info@pulse.com.zm	22(31/12/05)	2,457	291	85.00%	59.34%	0	n/a	n/a	714,387 (31/12/05)	807,940	0	698,881	86.50%	15.60%	0.00%	0.00%	88.42%
	PRIDE Zambia	2000	NGO	No	91-100%	Plot 742, Cha Cha Cha Road, South End P.O.Box 36263 Lusaka Zambia	+260 1 231257/231349/50	+260 1 231251	pride@zamnet.zm	46(31/12/05)	4,591	374	56.00%	76.30%	0	n/a	n/a	1,716,407 (31/12/05)	2,089,1592,089,159	0	97,235	4.65%	2,048.57%	0.00%	0.00%	82.16%
Ghana	Christian Rural Aid Network	1994	NGO	No	61-70%	RussellStreet P.O.BoxUC97 CapeCoast CentralRegion BoxUC97 Ghana	2334233572	2334234218	akucran@yahoo.com	35(31/12/05)	5064	102	0.888	0.227	2230	58	0.1286	517,324 (31/12/05)	678146	129023	372942	0.5499	0.8184	0.2494	0.1903	0.7629
	Kraban Support Foundation	1996	NGO	No	91-100%	Shop No 2 Commercial Area, Jogis Estates, East Legon Extension, (Ajiringanno), Accra PO Box KD 83, Kanda Independence Avenue	(233) 20-813-2074 (233) 24-414-9954	Fax(233) 21-773055	kraban_2000@yahoo.com opare22@yahoo.com	15(31/12/05)	6,822	57	91.80%	12.59%	0	n/a	n/a	386,391 (31/12/05)	455,476	0	354,188	77.76%	28.60%	0.00%	0.00%	84.83%
	Opportunity International - Sinapi Aba Savings and Loans Ltd	2004	Non bank	Yes	91-100%	D765/3 Kwame Nkrumah Avenue P.O. Box JT 323 Accra Ghana	+233 21 675219	+233 21 665919	info@oisasl.com	176(31/12/05)	26,310	181	91.00%	40.26%	7,334	247	54.84%	4,766,4824,766,482 (31/12/05)	8,211,045	1,809,743	3,149,793	38.36%	160.69%	37.97%	22.04%	58.05%
	ProCredit SLC Ghana	2002	Non bank	Yes	91-100%	ProCredit Savings and Loans Company Limited P. O. Box NT 328 New Town Accra Ghana	+233 21-246860/61/62 +233 21-236422		info@procredit.com.gh	248(30/06/06)	7,071	1210	n/a	n/a	48,054	175	n/a	8,555,000 (30/06/06)	12,841,000	8,427,000	2,939,000	22.89%	336.95%	98.50%	65.63%	66.62%
	Sinapi Aba Trust	1994	NGO	Yes	91-100%	P.O. Box JT 323 D765/3 Kwame Nkrumah Avenue Accra Ghana	+223-21-675219	+223-21-665919	AFosu@sinapiaba.com AFosu@sinapiaba.com	121(31/12/05)	34,336	91	94.20%	20.13%	1,194	0	0.09%	3,109,716 (31/12/05)	5,277,310	471	3,968,255	75.19%	32.99%	0.02%	0.01%	58.93%
Kenya	Equity Bank, 元Equity Building Society	1984	Bank	Yes	91-100%	P.O.Box75104-00200 Nairobi Kenya	+254202736620 +254202737334	+254202737276	ebs@ebsafrica.co.ke	884(31/12/05)	110,112	738	52.00%	139.19%	556,000	195	36.73%	81,232,249 (31/12/05)	158,130,080	108,240,431	22,001,248	13.91%	618.73%	133.25%	68.45%	51.37%
	K-RepBank	2000	Bank	Yes	91-100%	NaivashaRoad Riruta Nairobi Kenya	(254)20573229	(254)20573178	registry@k-repbank.com	397(31/12/05)	69,279	492	55.10%	92.77%	23,044	668	125.99%	34,062,539 (31/12/05)	52,185,809	15,387,221	10,901,362	20.89%	378.71%	45.17%	29.49%	65.27%
	Kenya Women Finance Trust	1982	NGO	No	91-100%	P.O. Box 55919, Muchai Drive Off Ngong Road Nairobi Kenya	(254) 2-712-823		kwft@kwft.org	306(31/12/05)	62,970	320	100.00%	60.34%	0	n/a	n/a	20,137,536 (31/12/05)	33,088,531	0	10,621,573	32.10%	211.52%	0.00%	0.00%	60.86%
	Small and Micro Enterprise Project	1975	Non bank	No	91-100%	H/Q Kirichwa Road - Off Argwings Kodhek PO Box 64063-00620 Muthaiga Nairobi Kenya	254 2 561 927 254 2 561 929	254 2 570 191	smep@africaonline.co.ke	94(31/12/05)	21,633	264	60.00%	49.80%	0	n/a	n/a	5,709,908 (31/12/05)	8,666,993	0	2,686,404	31.00%	222.62%	0.00%	0.00%	65.88%
	Faulu-Kenya	1992	Non bank	No		POBox60240 200 Kenya	25420577290	25420567504	info@faulukenya.com geraldm@faulukenya.com	110(31/12/03)	15,000	480	66.70%	123.18%	21,000	230	58.91%	7,206,344 (31/12/03)	10,538,796	4,824,953	4,901,623	46.51%	115.01%	66.95%	45.78%	68.38%

Coutnry	Name of MFIs	Overall Financial Performance			Revenues		Expenses				Efficiency		Productivity		Risk			
		Return on Assets (%)	Return on Equity (%)	Operational Self-Sufficiency (%)	Financial Revenue Ratio (%)	Profit Margin (%)	Total Expense Ratio (%)	Financial Expense Ratio (%)	Loan Loss Provision Expense Ratio (%)	Operating Expense Ratio (%)	Operating Expense / Loan Portfolio (%)	Cost per Borrower	Borrowers per Staff member	Savers per Staff member	Portfolio at Risk > 30 days Ratio (%)	Loan Loss Reserve Ratio (%)	Risk Coverage Ratio (%)	Write Off Ratio (%)
Madagascar	Otiv Alaotra	n/a	n/a	183.56%	n/a	45.52%	n/a	n/a	n/a	n/a	n/a	76.9	56	197	6.52%	3.11%	47.75%	n/a
	Otiv Diana	5.80%	27.34%	149.40%	17.53%	33.07%	11.73%	0.03%	0.07%	11.64%	42.64%	208.5	17	269269	4.33%	1.43%	32.95%	n/a
	Otiv Sambava	1.07%	4.33%	108.26%	14.02%	7.63%	12.95%	0.83%	0.28%	11.83%	36.99%	146.0	31	306	19.04%	13.20%	69.32%	0.02%
	Otiv Tana	5.10%	48.92%	133.72%	20.21%	25.22%	15.11%	1.43%	0.26%	13.42%	42.36%	271.3	17	335	5.40%	2.11%	39.06%	0.00%
	Otiv Toamasina	-2.34%	-50.02%	87.55%	16.42%	-14.22%	18.76%	1.17%	0.36%	17.23%	59.83%	235.5	9	183	7.69%	1.88%	24.45%	26.08%
Senegal	Alliance de Credit et d'Epargne pour la Production	10.43%	15.14%	205.29%	20.33%	51.29%	9.90%	1.34%	1.47%	7.09%	7.52%	138.6	145	203	2.62%	1.53%	58.27%	1.00%
	CréditMutuelduSénégal	5.84%	32.61%	159.55%	15.65%	37.32%	9.81%	0.75%	0.41%	8.66%	14.63%	183.4	139	599	6.25%	0.89%	14.23%	0.53%
	InstitutionMutualisteCommunautaired'EpargneetdeCreditTHIES	-8.01%	-19.21%	75.39%	24.55%	-32.64%	32.57%	0.07%	6.74%	25.76%	44.56%	141.6	79	252	13.87%	9.66%	69.63%	3.35%
	Programme d'Appui aux Mutuelles d'Épargne et de Crédit au Sénégal	0.50%	1.81%	103.00%	17.10%	2.91%	16.60%	0.14%	2.81%	13.65%	17.42%	71.2	305	730	10.12%	3.05%	30.17%	1.63%
	Réseau des mutuelles d'épargne et de crédit de l'UNACOIS	5.14%	55.37%	297.73%	7.75%	66.41%	2.60%	0.59%	0.18%	1.83%	3.77%	4.4	483	694	0.78%	0.78%	100.00%	0.00%
Uganda	Centenary Rural Development Bank Ltd.	0.0258	0.1867	1.1961	0.2293	0.164	0.1917	0.0152	0.0188	0.1578	0.3635	321	68	576	0.059	0.0517	0.8763	0.0125
	FINCA Uganda	1.10%	6.55%	103.64%	53.76%	3.51%	51.87%51.87%	8.37%	1.78%	41.72%	57.66%	77.6	152152	143	4.00%	3.52%	87.99%	1.28%
	Uganda Microfinance Limited	4.03%	17.18%	112.51%	39.00%	11.12%	34.66%	9.04%	1.69%	23.93%	35.71%	118.3	96	180	5.57%	3.39%	60.86%	n/a
	PRIDE Uganda	0.00%	0.00%	n/a	0.00%	n/a	0.00%	0.00%	0.00%	0.00%	0.00%	0.0	177	227	0.00%	n/a	n/a	0.24%
	Uganda Finance Trust Limited - formerly Uganda Women's Finance Trust	-2.80%	-18.12%	91.39%	34.79%	-9.43%	38.07%	6.32%	4.68%	27.07%	43.71%	164.8	79	363	8.26%	6.21%	75.17%	3.22%
Zambia	CETZAM Opportunity	-0.3875	-0.4831	0.6488	71.60%71.60%	-0.5412	1.1036	0.0291	0.1605	0.914	1.2323	333.3	94	0	0.2909	0.084	0.2888	0.1152
	FINCA Zambia	-24.50%	-46.28%	75.65%	76.11%	-32.19%	100.62%	3.04%	1.86%	95.72%	148.03%	88.4	129	0	4.30%	3.58%	83.33%	0.00%
	MicroBankers Trust	-17.34%	-19.20%	37.38%	10.35%	-167.51%	27.69%	0.48%	5.70%	21.51%	66.07%	83.9	303	715	40.00%	24.70%	61.74%	n/a
	Pulse Holdings Limited	4.30%	5.51%	106.58%	69.57%	6.17%	65.28%	0.10%	9.93%	55.25%	62.66%	159.3	112	0	64.84%	25.07%	38.66%	6.18%
	PRIDE Zambia	-5.11%	-254.75%	94.72%	91.62%	-5.57%	96.72%	6.89%	31.52%	58.31%	69.52%	207.3	100	0	26.28%	29.10%	110.72%	n/a
Ghana	Christian Rural Aid Network	-0.0958	-0.1562	0.6531	0.1804	-0.5311	0.2762	0.0026	0.0028	0.2708	0.402	29.7	145	64	0.07	0.0288	0.4112	0
	Kraban Support Foundation	-3.20%	-5.25%	87.74%	22.87%	-13.98%	26.06%	1.85%	4.76%	19.45%	22.15%	12.6	455	0	7.59%	7.65%	100.72%	0.71%
	Opportunity International - Sinapi Aba Savings and Loans Ltd	-0.45%	-0.86%	99.96%	36.89%	-0.04%	36.91%	2.83%	0.41%	33.67%	63.34%	103.6	149	42	0.06%	1.15%	1,817.90%	0.00%
	ProCredit SLC Ghana	n/a	n/a	111.21%	n/a	10.08%	n/a	n/a	n/a	n/a	n/a	n/a	29	194	3.00%	5.93%	197.28%	n/a
	Sinapi Aba Trust	6.74%	12.19%	133.62%	32.38%	25.16%	24.23%	1.42%	0.94%	21.86%	37.54%	31.5	284	10	4.24%	1.86%	43.87%	0.99%
Kenya	Equity Bank, 元Equity Building Society	3.89%	24.75%	136.60%	21.06%	26.79%	15.42%	0.93%	1.21%	13.28%	26.80%	191.9	125	629	24.30%	6.13%	25.24%	1.24%
	K-RepBank	1.03%	4.32%	108.87%	18.68%	8.15%	17.16%	3.17%	0.49%	13.49%	19.19%	94.4	175	58	9.42%	1.67%	17.68%	1.69%
	Kenya Women Finance Trust	3.61%	11.31%	119.50%	23.35%	16.32%	19.54%	3.36%	0.58%	15.60%	26.51%	77.6	206	0	1.74%	4.62%	265.43%	0.00%
	Small and Micro Enterprise Project	2.23%	7.33%	111.56%	21.56%	10.36%	19.33%	4.90%	0.63%	13.80%	21.60%	54.0	230	0	11.57%	2.02%	17.42%	0.90%
	Faulu-Kenya	6.06%	15.42%	140.51%	30.35%	28.83%	21.60%	3.01%	3.32%	15.26%	21.42%	107.1	136	191	5.25%	5.92%	112.64%	0.58%