

Senegal

KEY CHALLENGES FOR THE 'MISSING MIDDLE'

#ClosingTheGap

Assessment of the
entrepreneurial ecosystem
in Senegal

Commissioned on behalf of:

Dutch Good Growth Fund (DGGF) / Investment fund local SMEs

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#ClosingTheGap Senegal has been commissioned on behalf of DGGF as part of the ClosingTheGap series of entrepreneurial ecosystem assessments. The findings and recommendations are at the discretion of the consultants -Enclude - and do not necessarily reflect the opinion of DGGF and/or its partners.



Ministry of Foreign Affairs of the
Netherlands

Dutch Good Growth Fund



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2 Executive summary

This report is part of a series of studies commissioned by the Dutch Good Growth Fund (DGGF) to get a better understanding of the 'missing middle' in francophone West Africa. It describes the main factors that hamper growth of SMEs and limit their access to growth finance in Senegal, and suggests possible actions to increase their access to funding.

This analysis herein looks at six dimensions or domains which, taken together, define the character of the ecosystem for entrepreneurs, and how supportive or inhibitive that system is for entrepreneurial growth. These 6 domains are **Culture, Policy, Markets, Finance, Support, and Human Capital**. We conducted a desk study to map these dimensions of the entrepreneurial ecosystem in Senegal and identify potential opportunities for improvements. Next we conducted a 10-day field visit in July 2016 to interview 43 stakeholders from various ecosystem domains. In September, a workshop co-hosted by the Royal Netherlands Embassy in Dakar gathered 60 key stakeholders to validate findings and design possible solutions to overcome the gaps in the local entrepreneurial ecosystem.

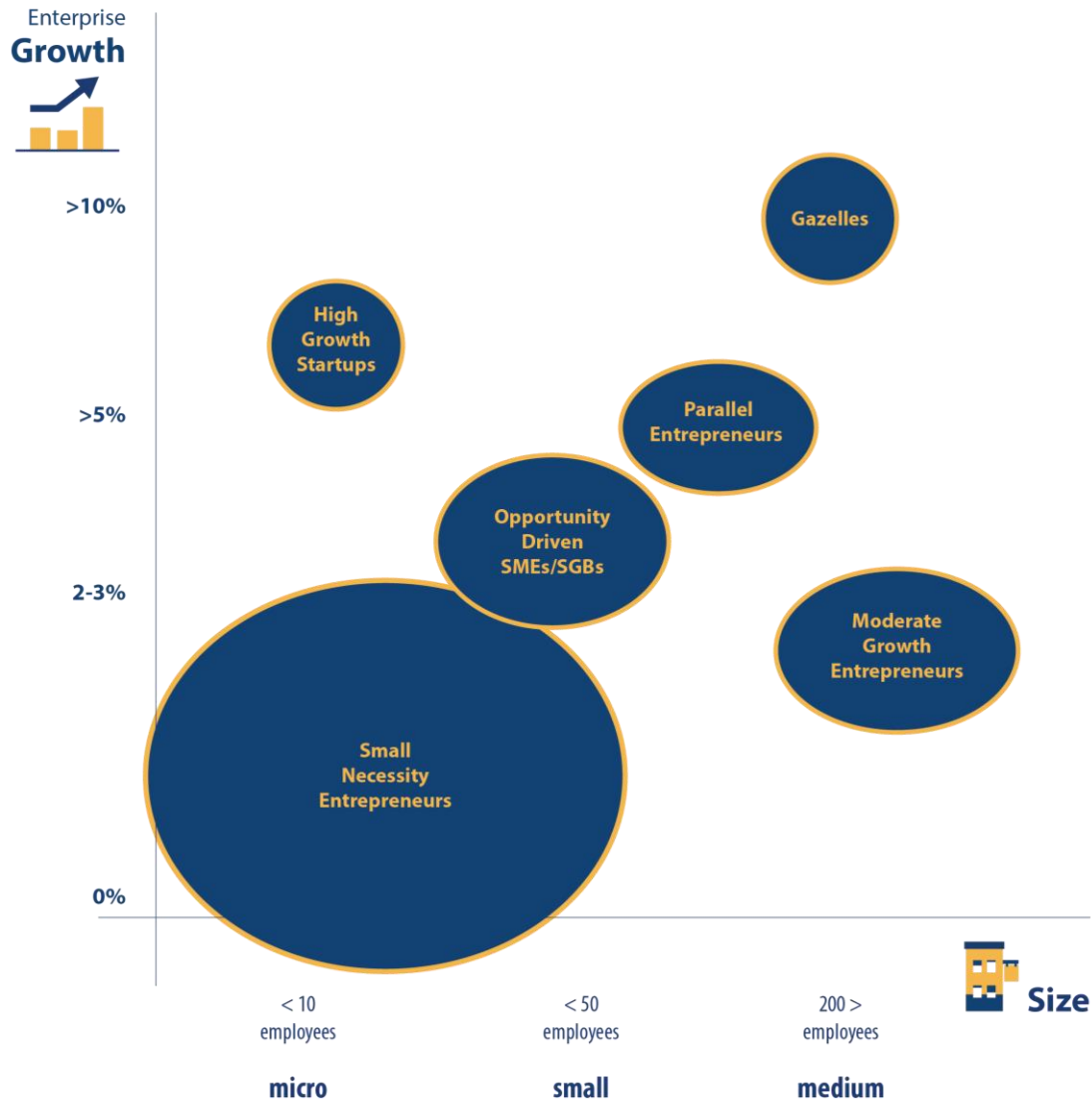
An SME-Oriented Economy

Senegal is a stable and growing economy, with significant regional trade opportunities. The Senegalese entrepreneurial ecosystem has been mapped and scored. Overall, data on the Senegalese ecosystem for SMEs suggest that it is fairly "average" compared to other countries in the region. In all of the six domains, nearly all composite scores are about average, as compared to the francophone region.

The Senegalese government has a positive and pro-active attitude towards SME development, and has initiated several programs to address key issues limiting SME growth. A support agency specifically for SMEs has been established, as well as an SME bank and a guarantee fund. In addition, the government is engaged in a number of public private partnerships (e.g. CTIC) to support SMEs, and is planning to set up a one-stop-shop for small business registration. Although the scale of these initiatives is not yet reaching a wide spectrum of SME, instead favouring high growth entrepreneurs and SMEs in certain sectors, it does provide a basis on which to build.

Most SMEs are small and informal

Senegal has a significant number of SMEs – an estimated 250,000 – yet only a small proportion is formal (about 7,000). Data is scant on the informal enterprises, but interviews with local stakeholders show that few of the formal SMEs are seen as being growth-oriented start-ups and "gazelles". The vast majority of small businesses in the country are (semi-) informal, moderate growth enterprises, while many more are very small necessity entrepreneurs.



Access to Finance is a Key Constraint

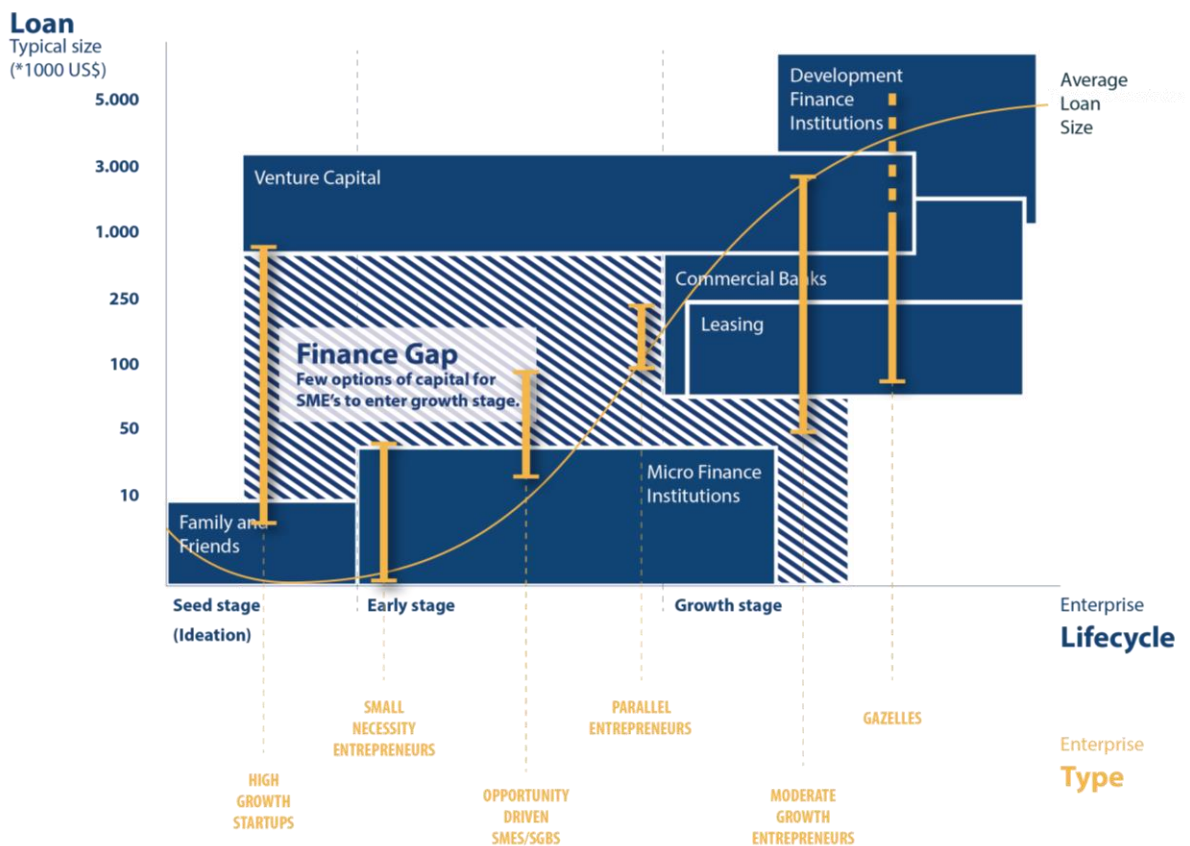
Overall, there is a major gap in financial service provision to SMEs, and both debt and equity is hard to access for growing SMEs. Micro enterprises can access microfinance to cover working capital needs (up to €20K). The most developed high-growth enterprises and gazelles have access to some equity and debt, but most other types of SMEs remain underserved or even unserved by the current financial landscape.

The main reasons for the lack of access to finance of SMEs in Senegal are summarised below.

- Entrepreneurial culture:** When compared to other countries in sub-Saharan Africa, cultural attitudes towards entrepreneurship in Senegal are about average. Senegal has many active entrepreneurs, and there is a vibrant group of stakeholders – including government agencies – to support entrepreneurship. However, success in starting or growing an enterprise is not widely celebrated, nor are there strong role models for aspiring entrepreneurs that are widely accepted.

- Informality:** The high rate of informality (>80%) is a major obstacle to accessing debt, since SMEs are “opaque” to banks. Informality does not encourage strong financial management and transparency, which is a major stumbling block for accessing finance.
- Nascent investor community:** In terms of equity finance, a handful of funds are operating at this time. For language, perception and economic reasons, many international and regional investors, including impact investors, have so far ignored Senegal, and have not built a base in the country to explore opportunities.
- SME finance:** Debt financing is hindered by many factors, including excessive collateral demands, illiquid asset markets, absent credit registration, and a weak legal infrastructure, all of which creates an unattractive value proposition to enterprises. Policy compounds the obstacles by imposing an artificial interest cap, which is further reducing the banking community’s interest in expanding or improving services to SMEs.

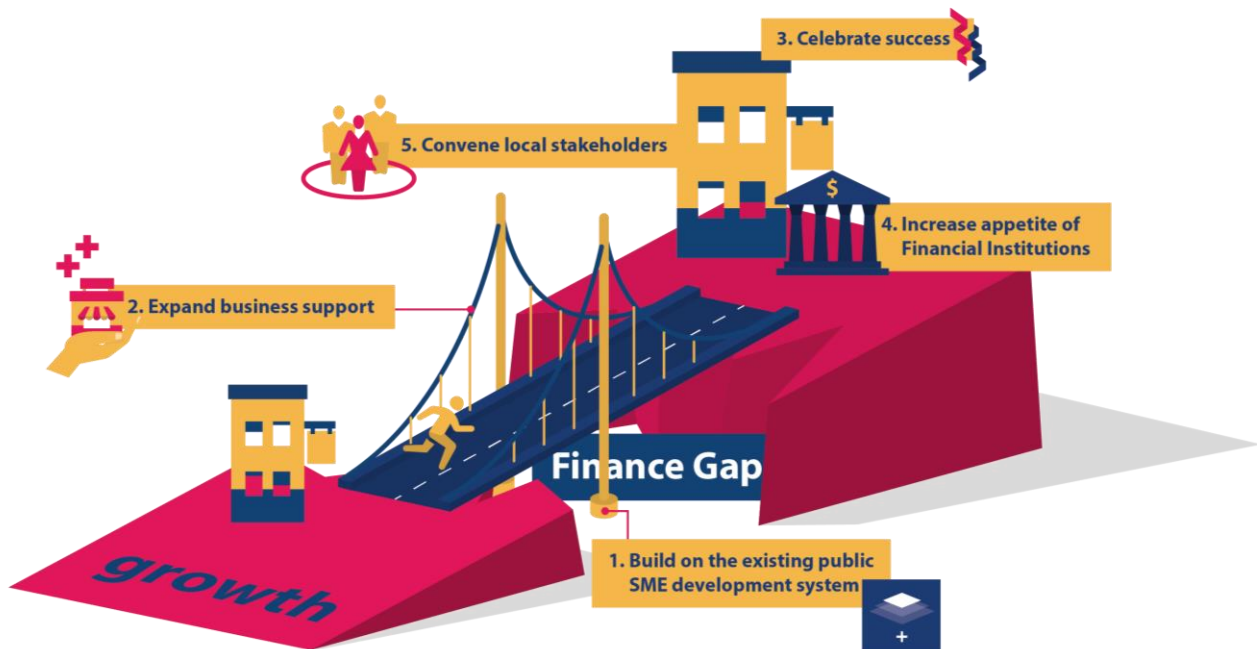
The resulting financing gap for Senegalese SMEs is shown in the image below.



The Way Forward

Looking forward, the two most promising pathways for closing the financing gap for SMEs seem to be helping missing middle enterprises transition out of informality and grow into bankable, investable businesses, while stimulating more tailored financial service delivery to missing middle enterprises. A number of concrete actions to close the financing gap were suggested by local stakeholders, including:

- Building on existing public programs for SME development
- Expanding business support services
- Celebrating entrepreneurial success
- Increasing appetite of financial institutions to engage with SMEs
- Convening local stakeholders



1 Introduction

1.1 Objective of the study

This study has been conducted on behalf of the Dutch Good Growth Fund (DGGF), an initiative of the Dutch Ministry of Foreign Affairs. The DGGF part 'Investment Funds local SMEs' is a "fund of funds" investment initiative of the Dutch Ministry of Foreign Affairs that aims to improve access to finance for the missing middle – that is entrepreneurs who have outgrown micro-financing but do not yet have access to conventional financial services.

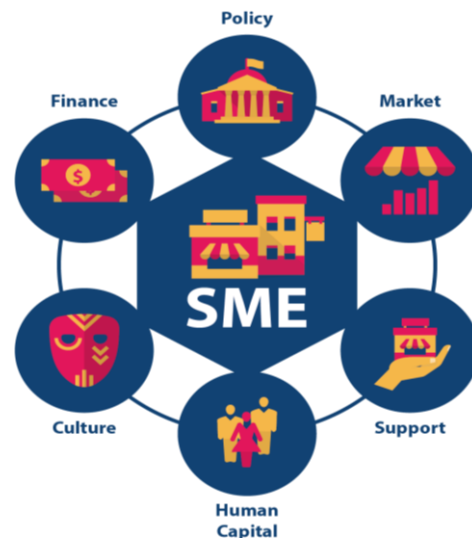
The Seed Capital and Business Development (SCBD) Facility was established to further the impact of the DGGF by providing technical assistance, seed capital and business support services to intermediary funds and local SMEs. In addition, the program incorporates a knowledge sharing component that supports research, tests assumptions and shares insights on financing SMEs in developing countries and emerging markets, and fosters industry-wide knowledge exchange.

Under the SCBD knowledge development and sharing component, the DGGF #ClosingTheGap series aims to improve the common understanding of key challenges faced by entrepreneurs and especially the "missing middle" in countries covered by the DGGF mandate. The #CTG series is a tool to facilitate and support local and international stakeholders' efforts to set the agenda for SME development. Working together, local stakeholders and their international partners should be better able to identify solutions to the main gaps in entrepreneurial ecosystems that hamper the growth of local enterprises.

The study was commissioned to get a better understanding of the 'missing middle' in francophone West Africa, of which Senegal is one of the focus countries. The report describes the main factors that hamper SME growth and access to finance, and suggests possible actions to increase SMEs' access to funding.

1.2 Methodology

The first DGGF #ClosingTheGap study piloted in 2015 in Kenya applied the Entrepreneurial Ecosystem Diagnostic Toolkit, published by the Aspen Network of Development Entrepreneurs (ANDE). Based on the lessons learned from the pilot in Kenya, the methodology was customised for this study. As shown the figure, the research follows the Babson entrepreneurial ecosystem model, one of the leading models in the current thinking about entrepreneurial ecosystems. Background about the methodology can be found in Annex 4.



The six ecosystem domains studied were:

- **Culture:** is the culture supportive of and enabling entrepreneurship?
- **Finance:** can entrepreneurs gain access to debt, equity and other financial products?
- **Human capital:** are the required human resources that local enterprises require available in the market?
- **Policy:** do policies enable and facilitate entrepreneurship?
- **Markets:** do entrepreneurs have sufficient business opportunities?
- **Support:** do entrepreneurs have access to enterprise development support services?

To map these domains and identify opportunities for improvement in Senegal, first a **desk study** was performed, during which we analysed how Senegal's scores compare to other countries in Africa in each domain, by combining multiple indicators from a number of different indices. Index sources used for scoring the 6 domains of entrepreneurial ecosystems were the World Bank's Enterprise Surveys (ES); the World Economic Forum's Global Competitiveness Index (GCI), the Global Entrepreneurship and Development Index (GEDI) produced by George Mason University; data from the Doing Business (DB) project of the World Bank; and the Global Innovation Index, co-published by the United Nations.

Box 1: Enterprise Surveys in Senegal

An important consequence of the high degree of informality in the private sector is the lack of reliable data on the number and key characteristics of the different kinds of enterprises that operate in Senegal. This makes it difficult to develop a representative survey of the local SME sector. For the purpose of this report information from a wide variety of sources was used. The surveys that were used for this research are:

1. DPME National survey of SMEs ,based on 19,875 registered SMEs* (97% located in urban areas)
2. WB Enterprise Survey 2007 and 2014, based on 601 SMEs

**Definition of SME not provided for this survey, but includes enterprises with no employees*

DGGF is partnering with the Enterprise Survey Unit of the World Bank to undertake enterprise surveys in the countries covered by the current assignment. In Senegal, a survey was undertaken in 2007 and 2014. The findings from this survey are being used in this report¹, although we acknowledge the bias of these data towards formal and therefore larger and more professional firms.

In addition, qualitative secondary information was collected from research reports and publications. These reports and indicators provided a good first overview of the key elements of the entrepreneurial ecosystem in Senegal.

After the desk study, we conducted a 10-day field visit in July 2016 to interview representatives from all ecosystem domains (see Annex 1). This included 19 entrepreneurs, 20 SME support structures

¹ <http://www.enterprisesurveys.org/-/media/GIAWB/EnterpriseSurveys/Documents/CountryHighlights/Senegal-2014.pdf>

(incl. public, private and semi-private organizations) and 12 financial institutions (banks, MFIs, and venture capitalists). These discussions enriched the information from the desk study, and uncovered the root causes of the 'missing middle' in Senegal. In addition, they helped to identify some of the key stakeholders in the Senegalese ecosystem that act as frontrunners in the development of a more SME-friendly ecosystem.

These and other relevant stakeholders were gathered at a workshop hosted by the Royal Netherlands Embassy with 60 key representatives of the ecosystem in Senegal in September 2016, to validate findings and design possible solutions. A list of participants and main outcomes from the workshop can be found in Annex 5 and 6.

2 The business landscape in Senegal

2.1 Senegal's ecosystem in a regional context

Box 1: Senegal key facts

Area:	196,712 km ²
Population:	approx. 16 million
Capital:	Dakar
Other economic hubs:	Thies, Kaloack and Saint-Louis
Official language:	French
Other languages:	Wolof, Peul, Serer
Religion:	Muslim (92%), Christian (7%)
Currency:	CFA Franc (XOF)
GDP per capita	Approx. \$973

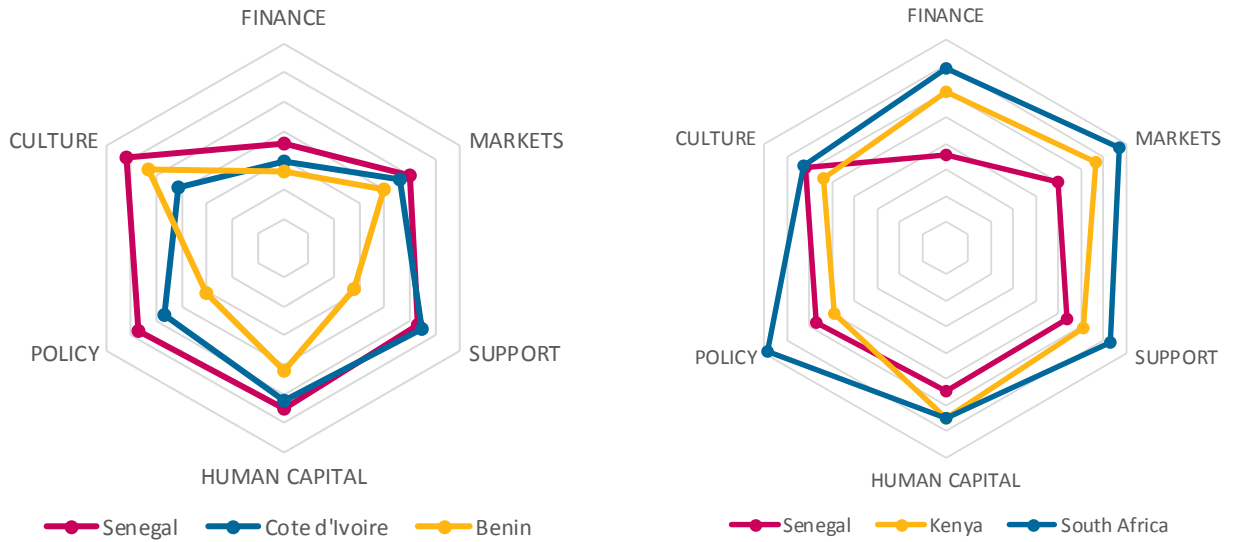


In order to get an initial sense of the key features of the entrepreneurial ecosystem in Senegal, and how this compares to other countries in Africa, we scored the 6 domains of the entrepreneurial ecosystem, based on multiple indicators from a number of indices including Enterprise Survey (ES), Global Competitiveness Index (GCI) and Global Entrepreneurship and Development Index (GEDI)², and developed the spider web graphs below in Figure 1.

The scoring shows that, overall, Senegal's ecosystem scores lower than several other sub-Saharan countries such as Kenya and South Africa, although it is at the top of the West African region. In particular, the *culture* domain ranks very high, and is comparable to South Africa and Kenya. The score is based in indices from the WB enterprise survey and GCI and is focused on themes such as ethical behaviour, corruption and crime rates. The field study, on the other hand, suggested that Senegal's *entrepreneurial culture* is not considered highly developed and is thought to be comparable to peers in the region. Local stakeholders indicated that generally the entrepreneurial mind-set is not embedded in the culture and that entrepreneurship is not celebrated and not a preferred career choice.

² The key index sources used for the scoring tool include: Enterprise Survey (ES), World Bank; Global Competitiveness Index (GCI), World Economic Forum; Global Entrepreneurship and Development Index (GEDI), George Mason University; Doing Business (DB), World Bank; Global Innovation Index and Legatum Prosperity Index. See also Annex 4

Figure 1: Senegalese ecosystem scoring compared to other economies

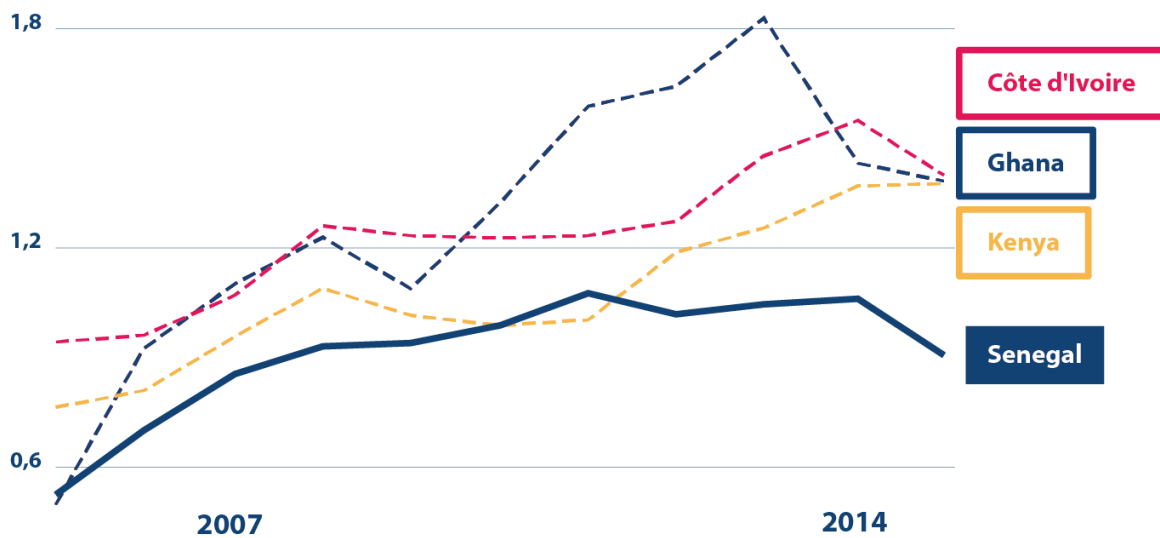


Source: Authors' research

The scoring also shows that Senegal stands out in term of **policy** compared to neighbouring countries. The interviews with local stakeholders indeed confirmed that the government is very engaged and has a positive and pro-active attitude towards private sector development. Some important initiatives have been launched to support private sector development in the country, including an SME support agency and a guarantee fund.

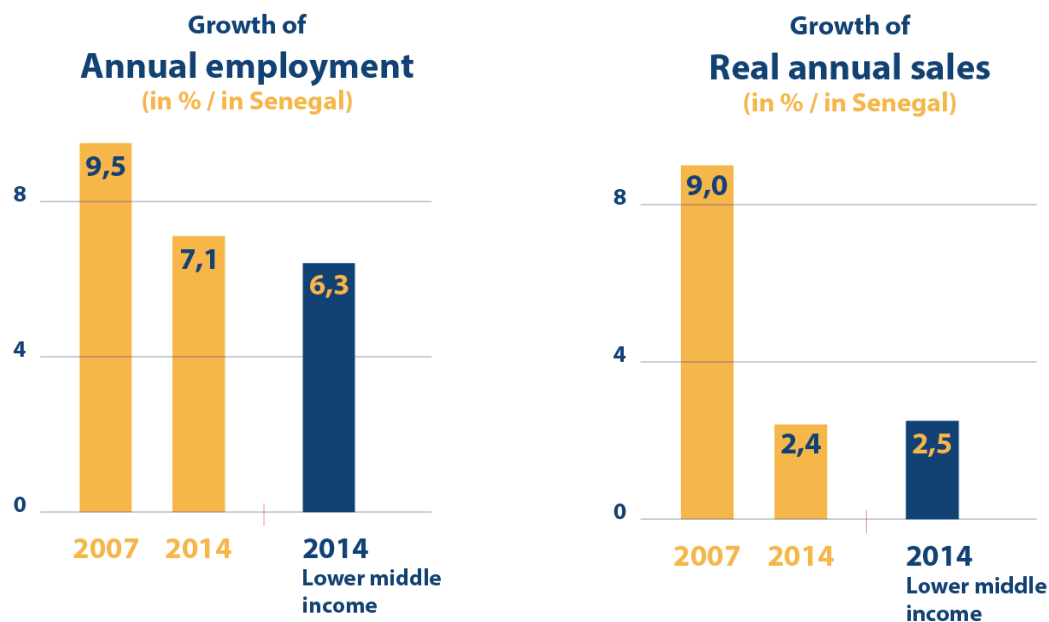
Senegal is gradually reaching a middle-income level, but in terms of GDP per capita it still lags behind Kenya, Ghana, and Cote d'Ivoire (see Figure 2).

Figure 2 GDP/capita (current x1000USD) in Senegal, Kenya, Ghana and Ivory Coast



The business environment (as measured by IFC³) ranks 147th out of 189 countries, which is low but improving every year. SMEs represent over 90% of formal Senegalese enterprises, generating 40% of employment and 20% of GDP – a low share compared with faster growing African economies such as Ghana, Tanzania and Mozambique⁴⁵. About 80% of the SMEs are believed to be located around Dakar, the commercial centre of Senegal. Smaller economic hubs are located in Thies, Kaolack and Saint-Louis⁶.

Figure 3: Performance of formal firms in Senegal



Source: WB Enterprise Survey 2007 and 2014

Telecommunications are functional in and around Dakar, but outside of the capital city, energy and other physical infrastructure are less reliable.

The WB Enterprise Survey of formal enterprises indicates that the private sector performance in Senegal is comparable to other lower middle income countries, with annual sales growth of 2.4% and annual employment growth of 7.1% in 2014. However, these growth rates are significantly lower than observed in the 2007 survey. Among the list of 15 potential obstacles in the business environment, the one with the most impact on day-to-day operations is access to finance (39%), followed by competition from informal competitors (23%)⁷.

³ Ease of Doing business index, World Bank, 2017

⁴ AfDB, 2013. Development Effectiveness Review - Senegal

⁵ DPME, 2010. Lettre de politique sectorielle des PME

⁶ The study covers the formal private economy and results are therefore skewed towards more professional firms (our study covers all firms including informal). For the purpose of this study, the results are therefore indicative.

⁷ WB Enterprise Survey Senegal. The sample consisted of 601 business establishments surveyed from May 2014 through February 2015. The study covers the formal private economy and results are therefore skewed towards more professional firms (our study covers all firms including informal). For the purpose of this study, the results are therefore indicative.

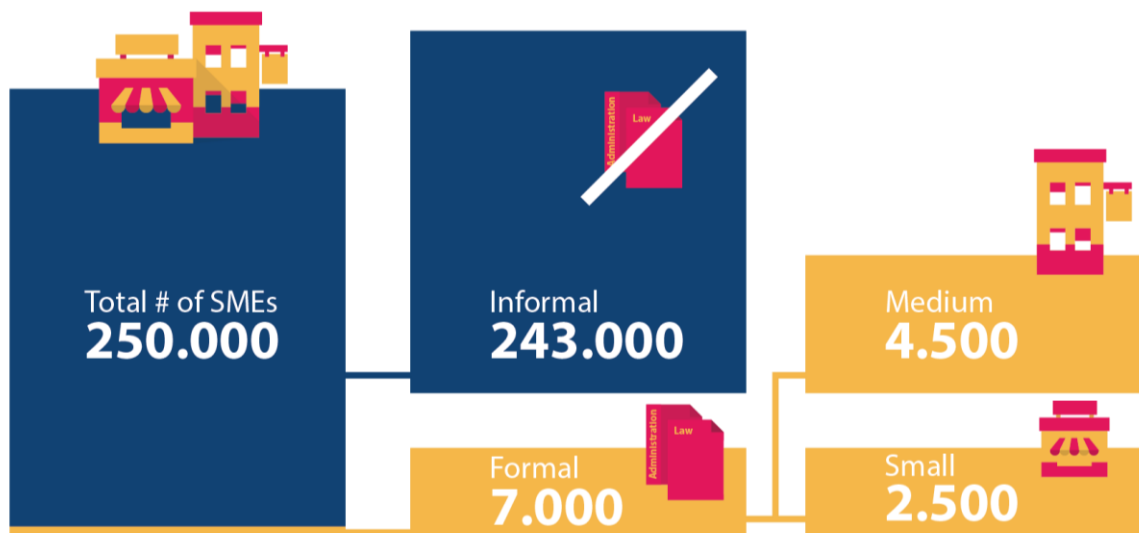
2.2 The Senegalese private sector

For this study, we used the customary definition of an SME in Senegal, which is firms with at least 5 and not more than 100 employees, and an annual turnover ranging from 50 to 200 m FCFA⁸. Furthermore, we are interested in businesses that are not micro-enterprises and have outgrown microfinance, but do not yet have access to conventional financial services or 'external finance', i.e. sources beyond retained earnings and borrowing from friends and family.'

A first observation on the Senegalese SME sector is that very little is known about its magnitude, distribution by firm size, and the representation of SMEs in specific industrial sectors. This is largely the consequence of the wide-spread informality of small enterprises in Senegal – more than 80% of the SMEs are believed to be informal, and thus few are formally registered. For those that are registered, very little information about sector affiliation, turnover or employment (for example) is recorded or known. Survey information exists, which provides some insights, yet the total population of SMEs is not known.

Based on field research and available reports, we estimate that the total number of SMEs is 250,000 to 300,000. Our highly speculative estimate of the number of medium-sized firms, by whatever definition (e.g. above 20 employees), is only a few thousand. Most sources suggest that the majority of the SME sector engages in services (about two-thirds) with the remainder in manufacturing (including agri-business, but excluding primary agricultural production).

Figure 4: Indicative representation SMEs in Senegal by size⁹



⁸ 656 FCFA=1 EUR

⁹ Source : DPME, 2010 Lettre politique sectorielle des PME. DPME, 2014, enquête nationale sur les petites et moyennes entreprises. Interview with Mr Maboussou Thiam, ADEPME, 2016

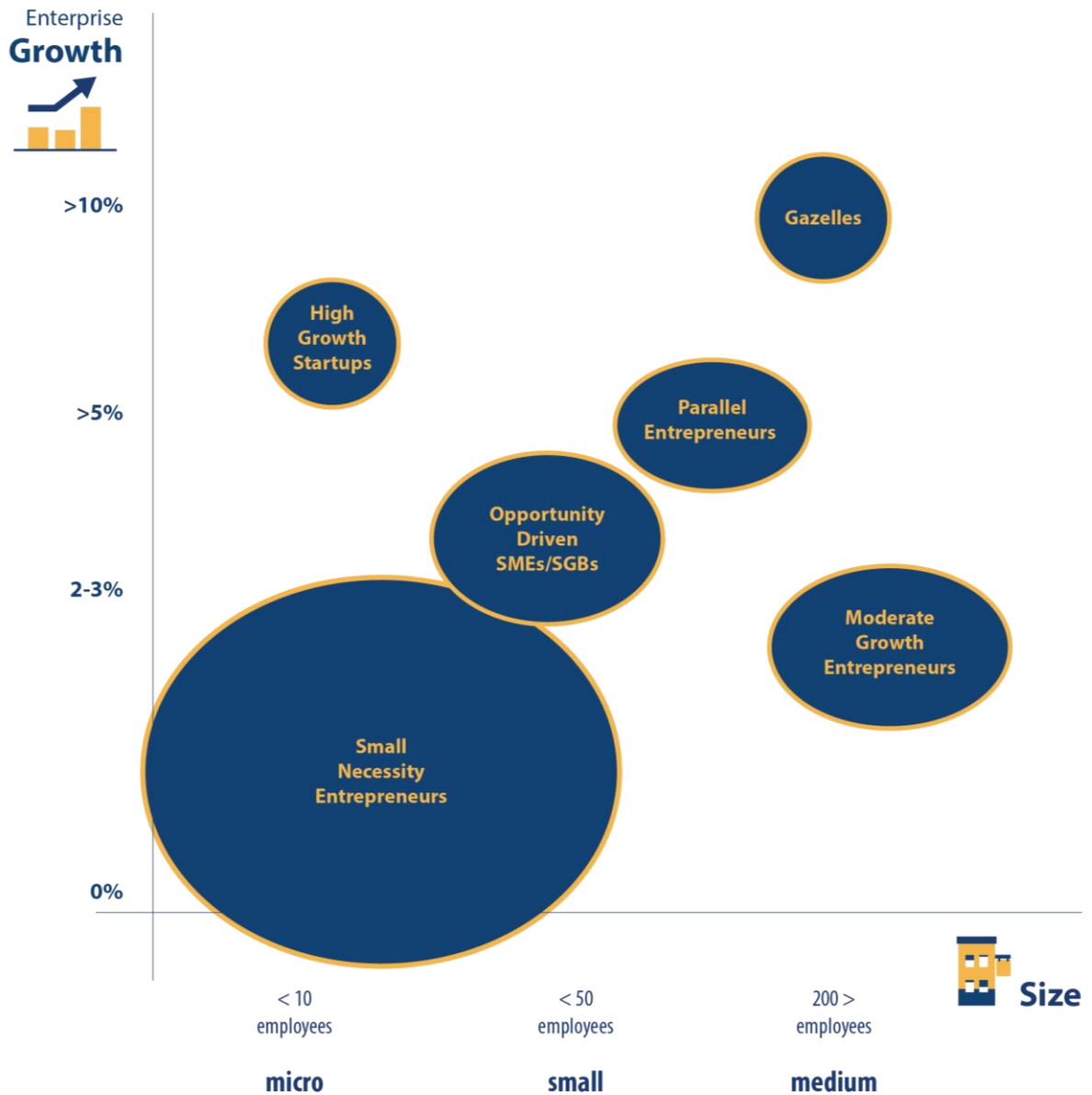
2.3 *The SME landscape*

Unquestionably, SMEs are not a homogenous group. They differ greatly in terms of size (number of employees, turnover), level of formality, experience, market orientation, growth aspirations and potential, and related funding needs. In the case of Senegal, stakeholders considered size and development stage of the firm as key factors affecting access to funding for an SME. Segmentation of SMEs in Senegal according to their size and growth rate results in six general types of entrepreneurs, each with distinctive characteristics and funding needs, that would benefit from customised support. These 6 segments are described below. Figure 5 illustrates—how firm segments are distributed in terms of growth rate and firm size, based on the data and information available.

- **Small necessity entrepreneurs.** The biggest segment consists of small necessity entrepreneurs, which are barely larger than a micro enterprise and set up to achieve an income for the owners' family. They do not have a strong growth orientation, and while some years are good and others bad, the businesses generally maintain consistent volumes. They want to attract funding to increase their working capital, but their financial management and business planning practices are not strong enough to approach funders.
- **Moderate growth entrepreneurs.** Moderate growth entrepreneurs make up another significant portion of Senegalese SMEs. These are traditional firms offering a product or service with a stable demand but usually not deploying innovative products or production techniques. An annual growth rate of 2-3% increases these firms' size over time in the direction of a mid-sized enterprise. Often these are family businesses with a higher rate of formality (around 20%) than the small necessity entrepreneurs. They are typically on the verge of having access to bank financing.
- **High growth start-ups.** These are typically young entrepreneurs, starting a business in IT or another part of the technology sector. Senegal has relatively few of these, at least in comparison with Kenya and other ecosystems bustling with new ventures. These new entrepreneurs typically struggle for several years with the basic challenges of doing business in Senegal, cash strapping and learning how to handle authorities and cope with unreliable infrastructure. As in many markets, both developed and developing, there is not much funding available for start-ups.
- **Opportunity driven SME's.** Another segment of Senegalese SMEs are those engaging in opportunistic business behaviour, such as copying successful business models observed in the market and regularly switching or adding of business activities. This group can include entrepreneurs that run several businesses at once, instead of focusing on the growth and development of one business (these are known as **parallel entrepreneurs**.) The lack of a long-term business vision and scattered efforts in several different areas leads to limited market knowledge and client understanding.

- Gazelles.** Successful start-ups that have made the move from small to mid-size firm in a short time, thanks to high growth rates around 10%, are called gazelles. Usually formally registered, they have at least 20 employees, and sometimes up to 100. They have achieved a mature financial performance, and are generally headed by a strong business leader. Gazelles look for larger amounts of long-term financing, to finance investments in assets. Few gazelles do not have access to debt or other forms of financing.

Figure 5: SME sub-segments in Senegal



Source:Adaped from Intelicap, 2015 and authors' research¹⁰

¹⁰ Size of sub-segments is estimated by authors based on desk and field data

2.4 *SMEs and access to finance*

The WB Enterprise surveys are typically biased in favour of formal, Dakar-based and larger SMEs, and thus include less information about smaller, more rural and informal enterprises. Even so, access to finance is considered the top obstacle to doing business by Senegalese SMEs, with 39% reporting the lack of access to finance as being the main obstacle to their business, followed by unfair competition from the informal sector (23%) and lack of reliable access to electricity (8%)¹¹. Few enterprises have or have had loans – only about 20%.

However, even this low figure may be overstating the use of external financing, as a good 72% of investments are funded by retained earnings, or the owners' own capital. Other surveys suggest that over 86% of the asset base of SMEs is owners' capital, and the remainder is not always a bank loan but could include other sources of capital (such as informal partnerships).

The DPME survey¹², which covers a more broadly defined group of SMEs than the WB Survey (including more smaller firms), indicates that 31% of SMEs have had access to finance; 14% had access to bank loans and 10% from MFIs. The survey also indicated that SMEs used the capital for both investment and as working capital. Of SMEs that obtained credit from a financial institution, 39% used this primarily for purchasing raw materials, while 24% used it to acquire or maintain equipment.

The WB Enterprise survey notes also that inter-firm credit or suppliers' credit is more likely to be the source of investment capital than banks, and even working capital comes from suppliers as often as it does from banks. In other words, even though 20% of the sample has access to bank loans, the amounts SMEs are able to borrow may be small. Finally, the WB data suggest that only 8% of the mid-sized firms have successfully raised any form of equity, and only 1.7% of the small firms in the sample have done so.

A note of caution here: not all survey respondents can or want to access bank loans, or other forms of external financing. There are many firms that cannot access external financing because they are informal, and even if they were formalized, the business would not qualify for economic reasons – because of a small asset base, fragile earnings, or simply because the business concept underlying the planned investment is deemed unrealistic.

¹¹ *WB Enterprise Survey 2014*

¹² *DPME, 2014 Enquête Nationale sur les petites et moyennes entreprises*

Necessity entrepreneur

Director: Mme Diop
Location: Dakar
Business activity: Processing fruits
Annual turnover: €90K
Established: 2000
Formal: yes
Staff: 7



"As an entrepreneur you have to tighten your belt."

Financing the business

Started with self-financing and now using retained earnings. Leasing one car at Locafrique. Would like to expand and build a new factory in the industrial zone of Dakar, an investment of 200 M FCFA – but cannot find the funding and faces bureaucratic hurdles

Challenges

- "I can only get small loans from the commercial banks"
 - "Retail buyers pay only after 3 months"
 - "We do not have in-house staff that is able to develop a business plan"
- "It is even challenging to find sufficient working capital."

High growth start-up

Director: Mr Ibrahim Diagne
Location: Dakar
Business: Invoicing software
Annual turnover: €90K
Established: 2010
Formal: Yes
Staff: 15 staff

"Everyone told me to find a proper job."

Financing the business

Difficult in the beginning; Family provided some money for start-up.

Challenges

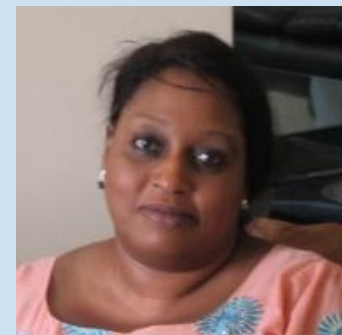
"I have an account at an SME bank, where I put all my earnings. Recently I requested €15K to finance the transport of a container – and gave my new car as guarantee.

However their process is that they need 15 days to get back to me. This is not feasible in my field of business; if I don't get the credit I will close my account"



Moderate growth entrepreneur

Director: Mme Caty Lo
Location: Saint-Louis
Business activity: Rice trade and processing
Annual turnover: €750K
Established: 2009
Formal: Yes
Staff: 20 (10 fixed, 10 temporary)



"Venture capitalists offered me €300 K only. I will try to find that amount elsewhere without having them being shareholders."

Financing the business

Investment of €150K for own factory. Has been able to finance this with own money and credit from family members.

Challenges

- "We want to build a second processing unit which will cost €300K; we need financing to invest in processing equipment."
- "Taxes are high; even if you make a loss you have to pay tax"

"Commercial banks didn't want to listen to me in the beginning, now they ask me if they can please finance me."

2.5 Financing Senegalese SMEs

Different SMEs have different financial needs, depending on size, type of business, growth strategy and asset base. The Senegalese financial landscape, however, does not serve each segment, for various reasons.

Financial needs of Senegalese Enterprises

The main characteristics and corresponding financial needs of the SME segments mentioned in section 2.3 are shown in the table below.

Table 1: SME sub-segments and financial needs

Sub-segment	Key characteristics	Financial needs*
High growth start-ups 1-10+ employees	<ul style="list-style-type: none"> High growth potential In business after 3-5 years of 'struggling' as a new business Often young entrepreneurs 	<ul style="list-style-type: none"> Mid-term seed capital to initiate activities (operations, staff) Short-term working capital and overdrafts Smaller amounts
Small necessity entrepreneurs 3-10 employees	<ul style="list-style-type: none"> Small size, low growth Many copycats Mostly informal The entrepreneur is the enterprise 25-75 m FCFA annual turnover 	<ul style="list-style-type: none"> Mid-term working capital, small amounts Mid-term asset finance, grace periods
Opportunity driven SMEs 10-20 employees	<ul style="list-style-type: none"> Driven by market opportunities, many copycats Lack of client and market knowledge Depending on sector, can be distorted by subsidies 75-250 m FCFA annual turnover 	<ul style="list-style-type: none"> Opportunity-driven finance (duration depends on type of project) Some trade finance Mid-sized amounts*
Parallel/network entrepreneurs 10-20 employees	<ul style="list-style-type: none"> Similar to opportunity-driven SMEs, but working in different sectors simultaneously 75-250 m FCFA annual turnover 	
Moderate growth entrepreneurs 15-30 employees	<ul style="list-style-type: none"> Steady growth Often family businesses More formalised (around 20%) 250-500 m FCFA annual turnover 	<ul style="list-style-type: none"> Mid-sized amounts of working capital Long term finance to invest in assets (machinery, vehicles)¹³
Gazelles 20-100 employees	<ul style="list-style-type: none"> High growth rates Mature financial performance 500+ m FCFA annual turnover 	<ul style="list-style-type: none"> Leasing/trade finance

*Financing term: short term, 6-12 months, medium term 1-3 years and long term > 3 years

Financing size: Small < 25-75 m FCFA, mid-size 75-250 m FCFA, large >250 m FCFA

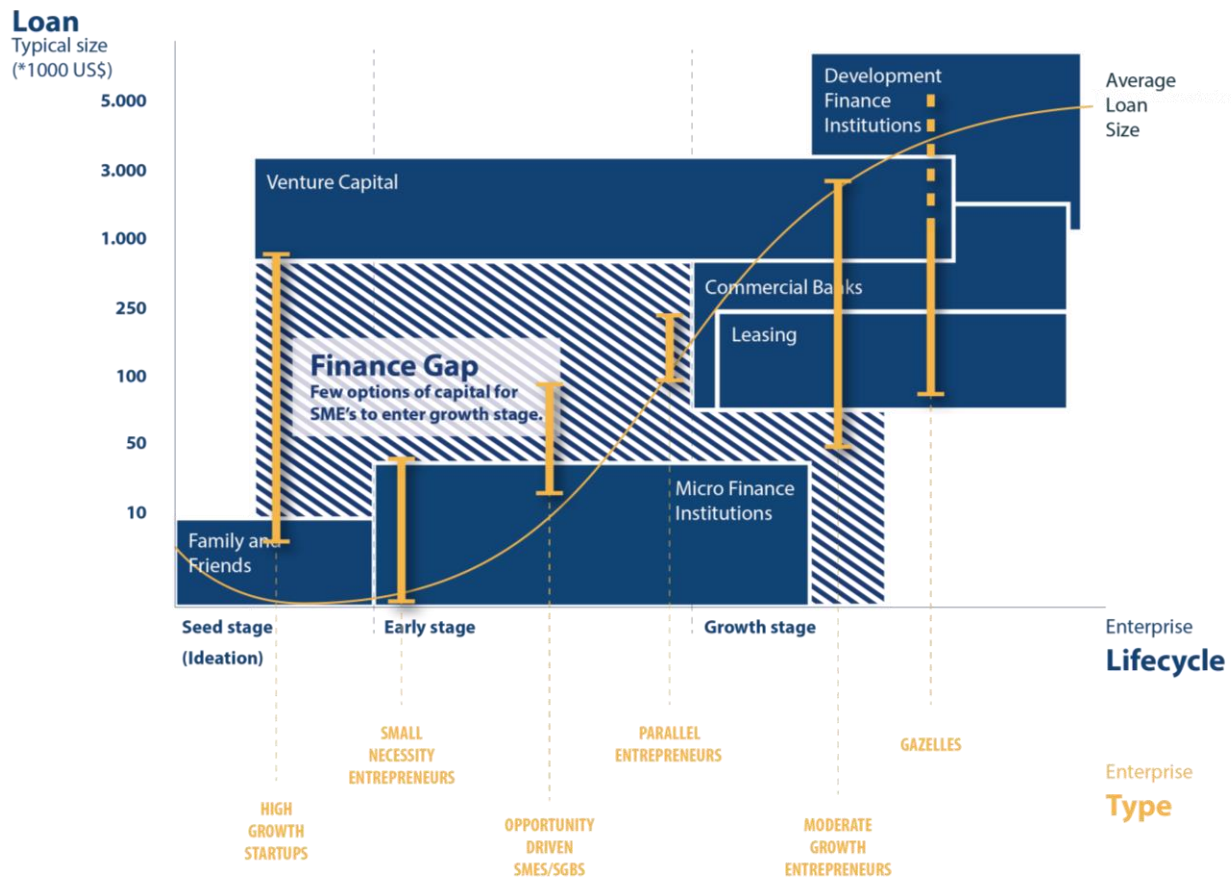
¹³ Typically 200+ m FCFA for 2-3 years (656 FCFA=1 EUR)

Existing financial offerings

Senegal has a fairly large banking sector, with 25 banks. Apart from that, however, the breadth of the financial ecosystem is limited: the regional stock exchange serves just three Senegalese enterprises, while there is only a small (albeit expanding) investment community operating in Senegal. Leasing is still developing, and bank finance provides only 7% of the funding needed by SMEs for their investments, a rate that has fallen in the past decade and currently stands at half that of similar countries in the region.

Few banks operate outside the commercial capital of Dakar. Microfinance focuses on providing smaller amounts (<€15K), yet several MFIs are moving upmarket and also starting to serve SMEs. The Senegalese government has also recently created institutions to stimulate funding to SMEs, providing guarantees through Fonds de Garantie des Investissements Prioritaires (FONGIP) and subsidies through Bureau de Mise à Niveau (BMN).

Figure 6: Schematic representation of finance gap for Senegalese SMEs



Source: Authors' research

This leads to the situation illustrated in Figure 6, wherein: financing is offered by an array of service providers, but typically not to enterprises with needs above €15K²⁴, or to mid-sized firms generating revenues above € 150K but below € 750K. Retained earnings remain the key source of growth capital, until SMEs has become large enough to access bank loans.

Note that the funding alternatives to retained earnings are limited for the vast majority of Senegalese SMEs, which are informal and thus not eligible for most formal sources of capital. Friends and family, plus some MFIs and informal investors (local or sometimes diaspora) are the only external sources of capital for the estimated 80% SMEs that are informal. The standard growth path for an SME in Senegal is therefore to start with one's own capital or loans or equity from friends & family, in very rare cases supported by donor-funded enablers. As time goes on, MFIs may be used for working capital and occasionally for funding growth, but most funding will come from retained earnings. In rare cases (say several hundred out of an estimated population of 250,000 enterprises), growing SMEs such as gazelles may succeed in acquiring venture capital and long term debt. From there, businesses that continue to grow can expect to be served by high-street banks, once turnover is beyond € 750K²⁵.

In summary; micro finance and family and friends are the financing sources for small and newer businesses, but not beyond a certain range. A few gazelles have access to equity investors and debt, but most other types of SMEs remain underserved or unserved by the current financial landscape.

²⁴ 656 FCFA =1 EUR

²⁵ *Idem*

Table 2: Overview of financial landscape in Senegal

Financial players	Senegalese players	Products	Ticket size (per enterprise)	Costs of funding	Sub-segment
Family and friends	Touba (informal funder groups from Touba-area)	Informal debt	< € 15,000, low-risk	Low	Small necessity entrepreneurs (mostly in transport and agriculture)
MFIs	i.e. MicroCred, Manko	Short and mid-term debt	€ 15,000-150,000 (mainly <€40,000), low-risk	<25%	Small necessity entrepreneurs, Moderate growth entrepreneurs, some SMEs
Venture Capitalists/ Impact investors	Teranga, I&P, Etimos, Root capital	Capital	Around €350,000 high-risk	Desired Rol >20%, expected Rol <5%	High growth start ups
Leasing	Locafrique, Alios	Asset finance	€75,000-250,000, low-risk	<15%	Moderate growth entrepreneurs, gazelles
DFIs	IFC, AfDB, Proparco	Capital, donation, credit line	Various, mid-size risk	Various	High growth start ups
SME banks	Orabank, Cofina, CNCAS	Credit	€75,000-350,000, low-risk	<15%	Moderate growth entrepreneurs
State	Fongip, BNDE, Fonsis	Guarantee, credit (some capital)	€75,000-350,000, low/mid-risk	<15%	Gazelles, moderate growth entrepreneurs
Banks	SG, Ecobank, UBA	Credit, some leasing	€75,000-1,5 million, low-risk	<15%	Moderate growth entrepreneurs

Source: Authors' research

3 A deep dive into the Senegalese Entrepreneurial Ecosystem



In this chapter we will present our key observations about each dimension of the ecosystem for SMEs in Senegal, outlining the main issues affecting access to finance for SMEs in the realms of markets, policy & institutions, finance, business support, human capital and culture. The underlying causes will be described by from both an **enterprise and a financier perspective**. Each chapter will conclude with an analysis of the main issues, including a summary of the main strengths and weaknesses, and present possible solutions.

3.1 Culture: few role models, no celebration

Being an entrepreneur in Senegal often involves casting about for new short-term business opportunities to survive the next months, rather than a consistent focus on building long-term clients and a quality-oriented enterprise. The result is copycatting SMEs, which our interview respondents thought to be less stable because of their lack of market knowledge and understanding of customer needs. One entrepreneur said that to be successful, *"you should have a single passion, not run behind every opportunity"*. In Senegal, however, success is rarely celebrated and only limited role models exist for a given sector or for entrepreneurship in general.



Enterprise Perspective

For the generation of established entrepreneurs, being an entrepreneur in Senegal was more a matter of necessity than of vocation, as there simply were no other employment options. This attitude can limit innovation and the growth aspirations of entrepreneurs. However, amongst the younger urban generation, starting or working for an enterprise (instead of aiming for a government job) is becoming increasingly popular. Schools like the International School of Management (ISM) are reporting more students with interest in business and management.

Still, most graduates prefer the stability of a governmental or INGO employer over starting a business. Another cultural factor driving these choices may be that enterprise success is not typically celebrated, which could be a reason to remain informal and under the radar. Another constraining factor is the acknowledged lack of information about best practices and of entrepreneurship mentors who can teach young people how to run a business in a commercially sustainable way. Finally, subsidizing some SMEs,

as is often done to show that “government takes action”, undermines a culture of entrepreneurialism and fairness.

A few business associations and business clubs have emerged to bring together entrepreneurs, for instance “Club d’Entrepreneurs” and the travel agency association. However, these initiatives have not yet taken off. One of the main reasons for this could be that entrepreneurs in Senegal generally do not want to share their insights with competitors. Another reason is probably that these structures need to reach scale before they become useful for their members, especially in terms of lobby and advocacy capacity. A third reason might be that informal enterprises are probably less inclined to join an association, as they may perceive this will risk to be exposed to tax authorities.

Box 2: Examples of business competitions in Senegal

Business plan competitions can be a powerful tool to highlight the potential and achievements of SME’s by rewarding the best firms. They can ‘enlighten’ a specific sector, and encourage entrepreneurship development and exchanges among entrepreneurs. Examples of such events that took place in Senegal are the Great Entrepreneur initiative and Jambar Tech Awards:

- In 2014, the British Council Senegal set up **the Great Entrepreneur initiative**. This initiative was set up to reward innovative ideas and concepts that create opportunities for young people in Senegal. Every year, Great Entrepreneur puts competing entrepreneurs together, aged 18 to 40, who have set up sustainable businesses that have high social impact in Senegal. Besides supporting the development of young Senegalese entrepreneurs through different learning channels and networking platforms, it also aims provides a platform to inform the general public on innovative entrepreneurial projects taking place in Senegal. The competition is broadcasted on national television, creating major exposure throughout the country. Winners receive financial support to help them grow their business and benefit from mentoring sessions with veteran entrepreneurs in Senegal, Africa, the Diaspora and the United Kingdom
- The **Jambar Tech Awards** were hosted by CTIC Dakar in 2014. The goal of the competition and award event was to highlight the potential and achievements of the ICT sector in Senegal by rewarding the best individuals and firms composing it. During the award event, representatives from the complete ICT sector, including the government, the international partners, established ICT entrepreneurs and the up-and-coming and ambitious start-ups, was brought together to reward successful entrepreneurs, and exchange on challenges and opportunities of the sector.






Source: CTIC, British Council

Financier Perspective

Many bankers and funders perceive SMEs as being disorganised, lacking basic skills, and at “the low end of the market”. A new culture which demonstrates that SMEs are the more agile, more efficient and generally more innovative enterprises, as is the perception in many other countries, is essential to convincing banks to engage in what could be a growth segment.

Analysis and possible solutions

A positive culture around entrepreneurship is emerging slowly, but is still far from being mainstream and affecting the propensity to work in or found a business interest in collaborating with or investing in an SME. This lack of cultural support for entrepreneurship in turn shapes the interest and incentives for financial players to develop this segment of the market.

	 Description	 Actions
 Strengths	<ul style="list-style-type: none"> • A positive culture around entrepreneurship is slowly emerging • A few interesting entrepreneurial role models have become visible • Recent initiatives tap into this entrepreneurial potential and provide targeted support (e.g. Enablis, CTIC) 	<ul style="list-style-type: none"> • Promote entrepreneurial awareness at schools • Subsidize internships in the private sector • Publicize success stories of entrepreneurs so that they become well-known role models • Expand support for young entrepreneurs by setting up new incubators/accelerators
 Weaknesses	<ul style="list-style-type: none"> • Many entrepreneurs display copy-cat behaviour • Entrepreneurship is not celebrated • Business associations are not very active 	<ul style="list-style-type: none"> • Sponsor business plan competitions for important SME sectors (like Jambar Tech Awards for IT sector) • Involve business associations, promote their development

3.2 Human Capital: good foundation, but some talent gaps

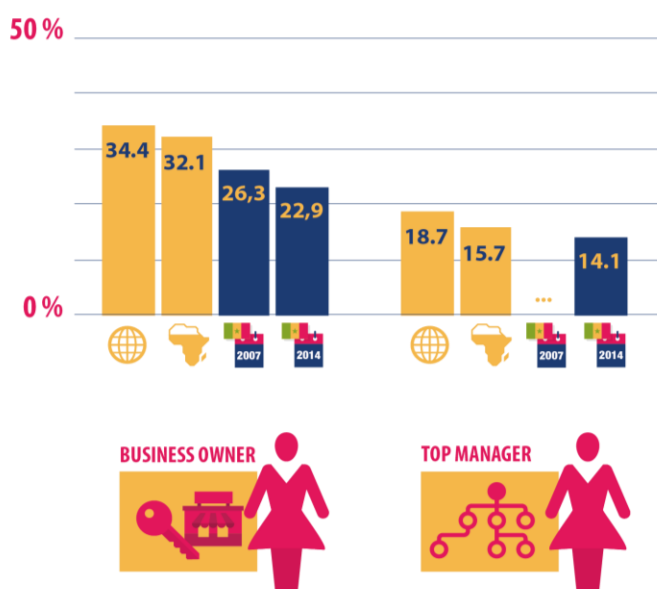
Senegal scores high in human capital compared to peers in the region. However, most Senegalese stakeholders agreed that it is challenging to find well-qualified employees and focused managers with an appropriate set of business skills. In addition, some entrepreneurs felt that the “level of education was poor, and a diploma means nothing”.



The participation of women in the private sector still lags behind other low middle income countries.

According to the WB Enterprise Survey in 2014, female participation in ownership was lower than the

Figure 7: Representation of women in formal businesses in Senegal



Source: World Bank

average in lower middle income countries, and slightly lower than it was in Senegal in 2007. Only 23% of firms had at least one woman among the firms’ owners, compared to 26% in 2007 and to 29% in lower middle income countries. The 2014 DPME survey draws a similar picture; 19% of participating business owners are women. The study also shows that female business owners are more likely to have completed a higher education; 50% have a university degree, compared to 36% of their male colleagues.

Enterprise Perspective

Most entrepreneurs in Senegal have not received formal training in business management and entrepreneurship, and do not know how to maintain sound financial management or optimize their business operations. This lack of professional business skills limits business expansion.

Moreover, the country’s education system is not considered practical and business-oriented, although this is improving as several business schools have been established (for instance the HEC Business School, KEFGE Business School and Université du Sahel and ISM). However, it is likely that highly trained graduates will work at large corporates, and few will work in SMEs. SMEs believe it is too costly to attract better trained and more professional business talent, in terms of remuneration and the risk of staff turnover. Entrepreneurs indicated that the Senegalese labour code’s requirement of offering a fixed contract after two years is often considered financially risky for entrepreneurs

Financier Perspective

In Senegal, the number of SMEs that practice adequate business planning and sound financial management is limited. Funders see SMEs as generally disorganised and lacking a clear view of their own financial needs. SMEs tend to become better organised once they reach an annual turnover over FCFA¹⁶ 100-500 m, but many of the smaller SMEs operate on an ad hoc basis, focusing almost exclusively on day-to-day needs and lacking any long-term strategy. One executive often makes all business decisions, which fails to capitalize on the relevant experience and business ideas of employees and other associates.

Hence, many SMEs can be considered more akin to large microbusinesses. Financiers consider SMEs a risky group and not bankable or ready to absorb capital. Even for Cofina, a bank providing meso-finance¹⁷, only 30% of the clients in their portfolio are SMEs, and these are mostly short term loans for working capital. The banks focus on larger companies, since they do not feel comfortable with incomplete or unreliable financial records and unprofessional management of SMEs¹⁸.

Analysis and possible solutions

While Senegal is relatively fortunate in terms of general education levels, there is insufficient business education that targets or reaches SME employees and owners. SMEs are developed “on the fly” and are only able to attract more professional staff at a high rate of turnover. This hinders the professionalization process that any small enterprise must undergo, in order to access more sophisticated forms of finance.

¹⁶ 656 FCFA=1 EUR

¹⁷ Loans from €300K, specifically targeting the missing middle. Cofina is formally an MFI, but operating as a bank.



¹⁸ Source : Laissa Mouen, Cofina Incubator



Description



Actions

 <p>Strengths</p>	<ul style="list-style-type: none"> • Very young, low-skilled population provides cheap labour force • Several business schools have been established (for instance the HEC Business School, KEFGE Business School and Université du Sahel and ISM). 	<ul style="list-style-type: none"> • Integrate an entrepreneurial curriculum not only at business schools but at all educational levels including secondary schools, technical and vocational schools, and universities. • Support new initiatives targeting women, such as dedicated guarantee funds and incubators • Highlight success stories of women and young entrepreneurs to set an example for others
 <p>Weaknesses</p>	<ul style="list-style-type: none"> • Low education levels, of both business owners and employees • The country's education system is not considered practical and business-oriented • Women are under-represented among business owners and managers 	<ul style="list-style-type: none"> • Invest in better technical education and more practical skills training, taking into account demand from the private sector and focusing on the needs of the self-employed • Improve and expand the offer of business training for entrepreneurs, with a strong focus on women entrepreneurs

3.3 Markets – Regional trade hub, slow growth

Senegal is transitioning from a low-middle income country to a middle income country, with a GDP per capita of 1,046 USD in 2013. In 2010, this number was 998 USD¹⁹, indicating that change is rather slow in coming. Data do show, however, that Senegal has a small but growing middle class that has an appetite for new products and is demanding that the government build a reliable infrastructure and simplify business regulations.



High transaction costs are a particular obstacle for the growth of SME's. These businesses are investing and innovating, but have limited free cash flow margins because of high costs and unexpected expenses. High or unforeseen costs for the use of roads, energy and water can disrupt business continuity, slow down production and delivery, and ultimately derail investment projects when anticipated revenues are not realized in time or at all.

Enterprise Perspective

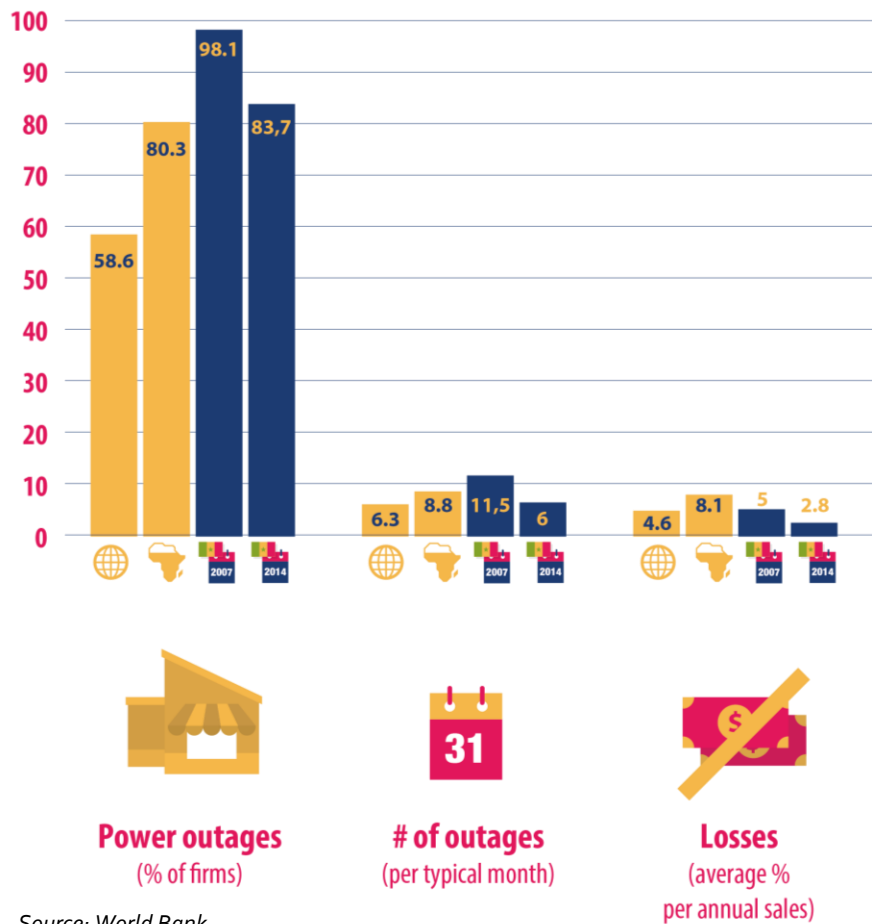
Dakar is clearly the country's economic hub, with an estimated 80% of SMEs located in its greater metropolitan area. Senegal's infrastructure is still patchy, making transport costly. Access to energy can be intermittent and expensive, especially outside Dakar. For 33% of SMEs, access to energy is a major issue²⁰. As a larger fruit processing firm reported, "20-22% of our expenses are for energy. Senegal is not well equipped for an industrial sector".

However, data from the WB Enterprise survey shows that the power supply in Senegal for larger formal firms has improved since 2007. The average number of electrical outages in a typical month almost halved from 11.5 outages in 2007 to 6 outages in 2014.

¹⁹ World Bank

²⁰ DPME, 2014

Figure 8: Power supply in Senegal



Source: World Bank

The openness of the UOMEA-market, which consists of eight West-African markets including Senegal, should be an enabling factor that makes trade within the union relatively straightforward. However, some businesses indicated that informal duties have to be paid anyway, increasing both transaction time and costs. On the positive side, Senegal’s communication infrastructure is considered reasonably well developed, and is rated among the best in the region.






Financier Perspective

High transaction costs, uncertainties and lack of information make SMEs a risky business for funders. Multiple investors have indicated that one disadvantage of Senegal is its small economy and limited number of players. Having uncomplicated access to other West African markets would increase its appeal for funders.

Analysis and Possible Solutions

The nascent stage of economic development in the country poses disproportionate challenges to SME’s and funders operating in Senegal. High value-added products and services and associated business models are difficult to realise profitably, and many small enterprises “get stuck” in their growth path, not having enough profits to reinvest, innovate, and grow. Instead of generating profits for re-investment,

many smaller enterprises lose money just to stay in business, and struggle to grow at all. Albeit slowly, the overall market is growing, which is contributing to new opportunities in the private sector, including SMEs. SMEs need to be well informed about the market opportunities that exist and supported in becoming competitive on local and regional markets.

	 Description	 Actions
 Strengths	<ul style="list-style-type: none"> • Regional trade opportunities (UEMOA countries) • Well-developed communication infrastructure • Senegal is growing economically, growing middle-class 	<ul style="list-style-type: none"> • Increase the awareness of SMEs' opportunities in the regional (UEMOA) market • Provide incentives and technical support to SMEs to increase their competitiveness (through BDS programmes, accelerators)
 Weaknesses	<ul style="list-style-type: none"> • High transaction costs due to weak infrastructure, lack of information • Unreliability of energy, although improving • Limited local demand • High degree of informality of SMEs 	<ul style="list-style-type: none"> • Improve access to market information through (online) information systems for selected sectors • Promote formalisation of SMEs through information campaigns and simplification of procedures • Encourage and/or favour SMEs in public procurement processes

3.4 Policy & institutions – interest, but no results for SMEs and financial services yet

Senegal's institutional set-up is characterized by a strong government, with an activist attitude towards the economy; in contrast to the more laissez-faire approach East Africa, for example. There is an SME-focused policy, but it does not always produce intended effects, and regulations can be stifling for both SMEs and financiers.



3.4.1 Government-led development – strong basis, but not always effective

Senegal is a centralized, government-led economy. The francophone West African ecosystem distinguishes itself from other African regions in the strong guiding role that the government plays. Public structures have been established to support SME development including business development support structures (ADEPME, BMN); an investment fund (FONSIS); guarantee funds (FONGIP); and a national SME Bank (BNDE).

Enterprise Perspective

The procedure to set-up a formal business is currently being improved. The government ultimately aims to set-up a one-stop shop process for business registration. The government is also working to streamline other processes such as obtaining building and other permits. It would appear, however, that there is limited collaboration between the different policy improvement incentives. Entrepreneurs expressed the feeling that follow-up support after setting up a business or getting a permit is lacking: *'Great that it takes only 2 days to register at APIX, but after that you are again left on your own'*.

Some SMEs mentioned that it would be helpful if the government would simply pay its bills on time. Many enterprises in Senegal depend on the government for work, which in turn is trying to drive more value-added processing and import substitution. This could be useful for local producers as a form of protection of infant industries, but is less useful for small importers. One example is poultry: As an entrepreneur explained: *"Senegal has now many enterprises flocking to that market; some of which have no experience handling large-scale poultry-production. Payment for services or goods by government agencies still can take months, which leads to liquidity issues"*.

Financier Perspective

At the behest of the government, the Senegalese financial sector has become more SME- and enterprise-oriented, although several interventions are more about lip service than results. The government of Senegal has introduced institutions such as BNDE (a development bank established in 2013), FONGIP (a guarantee-fund launched in 2014) and FONSIS (an investment fund for SMEs set up 2013). However, the interviewed SMEs indicated that these public interventions are characterized by very long and slow processes to access the benefits they can provide. One SME, for instance, had been waiting for four months to get a reply on his request for a FONGIP guarantee. For banks, or other non-bank financial actors, these policy initiatives do not represent a new opportunity to service the SME segment more actively as the key barriers, such as informality, are not addressed.

3.4.2 *Informality hinders access to formal finance*

Around 80% of Senegalese SMEs are estimated to be informal. Some SMEs are “partially” registered, and pay some taxes, while some are not registered at all and do not pay any taxes. As a result of the high share of informal enterprises, a heavy tax burden falls on the limited number of formal enterprises. This increases their costs of doing business, which further decreases incentives for enterprise formalisation.

Enterprise Perspective

Three out of four formal enterprises reported that they are competing with informal firms, and see this as the second largest constraint in doing business²¹. The tax regime is considered a major deterrent to SME formalisation, since taxes are considered too high and too cumbersome. Research indicates that it takes the government on average 21 months to handle tax returns.

Secondly, although the tax code seems to be well defined, its interpretation by tax-officials can be haphazard. Leasing companies, for instance, can offset their VAT²²-receipts with their VAT-payments as in other countries—and this is a key element in making leasing profitable. In reality, however, often no VAT is returned. Formalisation should provide access to government contracts - a strong incentive to formalise - but in reality government contracts are primarily awarded to people with good government connections, regardless of the business status. Another incentive to formalise – having access to formal financial services – is weak in Senegal, since the majority of formal SMEs still cannot access bank loans for various reasons as discussed in section 3.5.

Financier Perspective






For most financial institutions, informal SMEs are not only not attractive, but impossible to underwrite. Informal SMEs are opaque, as there is no external need for proper accounting, and are by nature more unstructured in their approach and business models. Many SMEs are opportunistic, with bouts of varied activities and income streams. Many SMEs practice parallel bookkeeping and prefer to be opaque in order to diminish taxes and remain invisible for competitors. It is therefore difficult for banks to assess the riskiness and repayment capacity of such SMEs.

Analysis and Possible Solutions

Currently, the policy regime and the high degree of informality among SMEs are not helpful in terms of stimulating growth and developing a better financial services landscape for SMEs. Government efforts to improve the SME-ecosystem are seen as lip service and not up to the challenge of solving structural issues that block SMEs’ long-term growth. Informality is caused by high taxation and regulatory pressure, which in turn reduces the potential for financial services dramatically. In many cases the banks might lend to the owner, but not to the business.

²¹ *WB Enterprise Survey Senegal*

²² *Value Added Tax*

	 Description	 Actions
 Strengths	<ul style="list-style-type: none"> • Basic set of SME policy instruments exists • Newly established firms are paving the path for a national economic growth strategy 	<ul style="list-style-type: none"> • The government intends to simplify the tax code; ADEPME²³, for instance, is working on diminishing the administrative tax burden.
 Weaknesses	<ul style="list-style-type: none"> • High taxation and regulatory pressure (leading to high rates of informality) • Little collaboration between different ecosystem actors and support structures • High transaction costs for SMEs 	<ul style="list-style-type: none"> • Improve the cohesion of governmental policies, institutions and private actors - to reinforce the efficacy of governmental policies • Government investment in infrastructure and power supply

3.5 Finance – mismatch, not much choice

With respect to access to finance for SMEs, four key observations were made that require further analysis:

- (i) the interest rate level is capped to 15%, but this is still perceived as too high,
- (ii) banks demand extremely high degrees of collateral coverage, and
- (iii) demand and supply of debt do not match, and
- (iv) the same is true of equity.



Interest rates are high

Interviewed SMEs perceived interest rates in Senegal as high, both at banks (12-15%) and MFIs (up to 24%)^{24,25,26}. The regional central bank BCEAO, has installed an interest cap of 15% for banks, to limit the costs for borrowers to a certain extent. The rates are similar to other African countries, for example in Kenya a bank loans have an interest rate cap of 14,5% and in Mali the rate is also capped at 15%. Both banks and MFIs consider it difficult to be profitable at that rate, which in turn diminishes or destroys

²³ Agence de développement et d'encadrement de petites et moyennes entreprises

²⁴ Inflation in Senegal is limited to 0-2% yearly, as the FCFA is connected to the Euro.

²⁵ Interest rates on SME clients in Africa are 5-6 percentage points higher than elsewhere in the developing world. Banks in Africa charge on average close to 15.6% for loans to their best small firm borrowers, compared with 11% in other developing countries (CFC and KIT, 2014 Balancing risk and striving for impact – Providing finance to SMEs in developing countries)

²⁶ Beck and Cull, 2014

incentives to offer new and better financial products to SMEs.

Enterprise Perspective

Enterprises find banks very expensive and feel their offer is not competitive. Entrepreneurs indicate that they are generally looking for long term loan products with a maximum interest rate of 7%, but this is not being offered by any bank. The state SME bank, BNDE, can offer loans at 8%, although they require high levels of collateral and large investments of time to get – for the few that can be served. There are very few investment opportunities for SMEs that have a return greater than the 15% cost of a loan.

Financier Perspective

The interest rates that banks in Senegal charge are relatively high, since the cost of capital at the central bank is also high. In addition, SME lending is usually characterized by small loans for short durations. Especially for banks that do not specialise in SMEs, this requires more handling time and in general involves higher uncertainties and risks, given current methods of offering credit to SMEs. This results in an *effective cost* of providing credit as high as 18 or 20%. The installed interest rate cap of 15% is put in place for social/political reasons, but does not stimulate banks to expand their SME lending activities. Furthermore, it is far easier for banks to invest in fairly secure government bonds, which yield between 6-10%.

High collateral requirements

Collateral requirements increased from 127% of loan value in 2007 to 272% in 2014, which is higher than in peer countries where it 211%. There is no efficient credit history mechanism in place and many firms and banks lack sound credit evaluation capacity and systems. A credit bureau for financial institutions and utilities has been launched in July 2016, aiming to unlock credit for more firms and individuals.

Enterprise Perspective

The 272% collateral requirement represents an extremely high threshold for entrepreneurs to obtain long term debt. Pledged assets need to be immovable, as no register for movable assets is in place in Senegal. As one of the entrepreneurs told us *"I have offered my company vehicles as collateral, but it has no value for the bank"*. This results in a situation where only a very small number of SMEs is able to provide enough collateral to meet requirements, and likely much of the collateral is then the owners' private assets, not the business assets. This is especially true for service companies.

Financier Perspective

Many SMEs lack financial records, organized management systems or even a long-term business approach, which makes it challenging for banks to assess repayment capacity. Senegalese are not able to handle economic disputes without solid securities. The quality of the Senegalese judicial processes scores 6.5 on a scale of 0-18 because of poor case management and absence of any process automation²⁷. Court cases can take more than two years. For banks, such a lengthy dispute settlement procedure locks up scarce capital. Thus, in order to minimise the probability of default, banks aim for wealthier SME owners

²⁷ *Doing Business Indicator, 2016*

with many personal assets. Otherwise, they do not see a business case for offering loans to SMEs.

Limited Supply of Long Term Debt

According to the 2014 WB Enterprise Survey, 39% of SMEs in Senegal consider access to finance their main obstacle, which is a significant increase from the 12% reported in 2007. Although SMEs perceive access to financing to be an obstacle, it does not necessarily imply that their demand for financing is effective and realistic. However, it does signal a desire for growth and belief there are opportunities in the market, which implies potential demand. Financiers, however, are not willing to respond to this demand with products of appropriate design and tenor because of their risk averse attitude.

Enterprise Perspective

SMEs see banks as unskilled in working with SMEs and not well organised, because of the lengthy loan application processes²⁸ that are commonly experienced. As one entrepreneur stated *"I applied for credit, but did not hear back for almost a year"*. Obtaining less standard funding such as trade finance is considered even more complicated. An SME proprietor mentioned that he gave up trying to work with banks and now funds his imports in advance, thus locking up an important part of his working capital. Some SMEs are not interested in or familiar with debt, partly because they know little about the financial products available. The fact that informality makes SMEs ineligible for credit is not understood by most SMEs. In addition, the loan products offered by banks are considered too expensive for most, with observed long-term interest rates between 12-14%. From the SMEs' perspectives, banks lack sector knowledge and entrepreneurs see them more as *'administrators than businessmen'*.

Financier Perspective

For the last few years, Senegal has had a few banks which are dedicated to serving SMEs. Some examples are Cofina, which provides meso-finance; BNDE, which lends ~35 m FCFA²⁹ to SMEs per year in 1-2 year loans; and CNCAS, which finances production, offers value chain finance and tripartite loans, and will accept commodities as collateral.

From the perspective of commercial banks, it is difficult to offer long-term finance. Banks usually have enough liquidity, but their fixed capital is limited. The Central Bank plans to introduce the Basel III regulations in 2019. These rules change the risk-weighted provisioning regime for banks. Without access to more capital, banks might have to diminish their credit portfolio or shift placements to lower risk categories. Both would likely shift lending away from SMEs, as it is easier for banks to focus on short-term loans and fee-based activities.

²⁸ Fongip (a state guarantee fund), had to send back about one-third of applications submitted by partner banks because of incompleteness or mistakes in the forms.

²⁹ 656 FCFA = 1 EUR

Small Investment Community

There is only a small investment community in Senegal that is formally registered. In fact, the entire universe of SME investors consists of the following:

- Teranga, which targets 5-10 placements of €150-300k per year;
- I&P, a Teranga associate which seeks placements of €0.3-1.5m;
- Root Capital, which aims at five placements of €50k - €2m per year; and
- Etimos, which is just getting started and aims for 10 placements of 75-750k per year in the whole West African region.

Given the work and risks involved, investors price their capital offer to SMEs around 20% per year, which is higher than the bank rates.

With respect to *informal* investors, probably the best organised informal funder groups are from the Touba area, funding smaller enterprises mainly in the field of transport and agriculture. Unlike markets such as Somaliland and Ethiopia, the Senegalese diaspora has one of the highest levels of remittances but this is mostly invested in construction of buildings, and not so much in local SMEs.

Enterprise Perspective

Not many SMEs have direct experience of working with formal investors, and only a minority has a good understanding of their financial products and structures. SMEs seem to perceive the engagement with investors as a slow process. The many meetings and restructuring & funding plans are considered excessively time-consuming, while the entrepreneurs want to focus on their businesses. Some SMEs explained that they fear that investors want to grow the business too quickly, with overly high return expectations (>20% per year), while a small profit is a more likely outcome.

Box 4: Teranga Capital

Teranga Capital is an impact fund that was established to offer a new financing solution that is customised to the needs of SMEs in Senegal. Teranga Capital targets high growth start-ups and gazelles from in all sectors that are looking for financing up to €350,000.

Teranga offers equity investments, becomes minority shareholder for a period of around 5 years, and provides personalised business development support. The investment can enable SMEs to have access to loans at a bank; Teranga does not aim to replace bank financing, but wants to have a complementary role. Teranga is one of the few equity investors active in Senegal. Since its start in 2016, Teranga managed to close several deals with SMEs in Senegal.



Source: Teranga Capital

Financier Perspective

All formal investors indicate that they find it challenging to build an investment pipeline and to get decent returns. The first of three key reasons for this is that the country has a small market-size, which makes it difficult for SMEs to expand. Given the risk and cost involved in investing in SMEs, only the high growth SMEs would normally be considered. These are usually a minority. Hence, even under ideal circumstances investors can only cover a small percentage of Senegalese SMEs' financing needs.

Secondly, doing business in Senegal is considered to be expensive, difficult and slow. The Doing Business Indicator shows an overall rank of the country of 147 out of 190 countries. More specifically, on 'Enforcing contracts', Senegal ranks 144, where for example Kenya ranks 87. Also on the 'protection of minority investors' measure Senegal scores much lower than Kenya (rank of 137 compared to 87)³⁰.

Investors need to be more patient and spend more time in process-management in Senegal than elsewhere. Finding investment opportunities--which easily takes 9-12 months--and the disbursement process and the start of building projects can take a long time. It is therefore difficult for investors to build and close their fund within the usual 7-10 year period demanded by their funders. The longer-than-usual ramp-up time also makes it difficult to create a positive cash flow during the initial start-up period. Investors therefore need to be able to do other tasks, such as consulting, as well.

Thirdly, investors need local banks to provide working capital to investees, which is an issue in Senegal. Investors usually can only provide part of the funding needs of their investees—most often long-term capital with higher return potential. Banks need to provide cheaper working capital and trade finance. Such funding is difficult to obtain, which makes Senegal less interesting for investors.

Also, selling shares in SMEs is difficult, limiting the exit options. As investors usually plan their exit when starting an engagement--especially when they have a fixed fund-life--the lack of sale options makes it less attractive to invest.

Another, less tangible obstacle to SME investment is the language barrier. Often impact investors will start their work in an "easy country" where the ecosystem is better, and – perhaps unwittingly – language is not an issue. French-speaking West Africa is in that sense often a secondary priority. However, many impact investors do see West Africa and Senegal as uncharted territory, where opportunities may be plentiful in a much less crowded space, compared to "the usual suspects" in East Africa.

Analysis and Possible Solutions






Funding costs are high in Senegal, resulting from the high costs of handling SME loans and relatively high costs of capital. The capped interest rate is not benefitting the entrepreneurs it is supposed to protect, as banks prefer lower-risk opportunities. This element of policy thus is not helpful, and discourages banks from investing in development of better SME products and processes.

³⁰ *Doing Business Indicators, 2016*

The excessive collateral requirement seems like a bank issue, but in fact has deep roots in the institutional environment. Property rights are difficult to enforce and involve high transaction costs and the still limited usage of the credit bureau or markets for liquidating pledged assets force bank rates higher.

The limited interest in financing SMEs stifles innovation in financial product development, and produces only a few competitive offers to potential SME clients. If specialized SME finance banks such as Cofina are able to reach profitable numbers through customized systems and economies of scale, perhaps it will incentivize banks to look more seriously at the SME market.

Shortage of funds seems not be the reason for the limited volume of equity investments by SMEs in Senegal. More importantly, few SMEs understand and value equity as a way to finance expansion, and investors consider it difficult to build a pipeline.

	 Description	 Actions
 Strengths	<ul style="list-style-type: none"> • Some SME support structures are in place (BDS providers, incubators, accelerators, and governmental support via ADEPME) • A few role models of successful SMEs exist 	<ul style="list-style-type: none"> • Work with existing SME supporters on investment readiness of SMEs (e.g. understanding of equity financing) • Demonstrate the viability of SME finance, as Cofina and other innovative SME-focused financiers have already begun to do
 Weaknesses	<ul style="list-style-type: none"> • High cost of capital due to the high returns available on government debt • High transaction costs due to lack of proper financial accounting of SMEs • Lack of adequate and efficient courts to deal with loan defaults and compensate FIs • Credit bureau in place, but usage still limited and not widespread • Lack of interest from foreign private investors due to perceived and real risks 	<ul style="list-style-type: none"> • Create awareness of financial products such as equity, leasing and trade finance • Improve the efficiency of courts • Support local champions to set up angel investor networks (CTIC, WIC)

3.6 Business Support – Existing, but Nascent

In the past decade, quite a number of SME support initiatives have sprouted in Senegal, both structures established by the government and donor community, and those driven by the private sector. An overview of different types of SME support in Senegal is provided in Table 3.



Several state interventions have been established to support SME-formalisation and professionalisation, for instance by OQSF (Observatoire de la Qualité des Services Financières), APIX, ADEPME, BMN and programmes funded by development agencies. ADEPME is the executive arm of the governmental 'Direction des PME' (DPME) and attempts to increase formalisation rates by providing hands-on support and information. For example, in the past year it has assisted entrepreneurs that were in principle bankable, but did not have a proper financial records and management practices in place. With help revamping their financial management systems and performance, these entrepreneurs were able to formalise and obtain a loan. However, outreach is small compared to the target group—reaching only some tens of SMEs each year, and mostly focused on moderate growth entrepreneurs and high growth start-ups.

ADEPME focuses on disseminating best practices, aiming to inspire more small business people to adopt them and develop their entrepreneurial mind-sets. One of these success stories is the company 'Zena exotic fruits', a successful fruit processing firm with current annual turnover of 1M FCFA³¹.

A few incubator/accelerator programmes are active in Senegal, helping start-ups or existing enterprises reach the next level of development by providing varying degrees and types of BDS support. CTIC is the only incubator with a relatively lengthy track record (Box 5). Other more recently established incubators in Dakar include Enablis, OrangeFab and Cofina-Incubator. Development agencies such as AFD, UNCDF and ADEPME and private companies such as Deloitte and Orange Telecom support these business incubators. Incubation takes time and requires considerable one-on-one input. Hence, as in most other countries, it is difficult for incubators to reach scale and become commercially viable in the long run. Commercial business support services are available in the market, mainly in the greater Dakar area. Estimates suggest that all told, current providers can serve only a few dozen enterprises per year, out of an estimated 250,000 SMEs in Senegal.

Box 5: CTIC - an Incubator for IT in Senegal

CTIC Dakar is the leading business Incubator in Senegal for IT and mobile services entrepreneurs. It provides support on business model design and strategy as well as connecting entrepreneurs with key actors throughout the ecosystem. Established in 2011, it was the first incubator for the IT sector in francophone West Africa. Between 2011-2015, CITC supported 75 businesses, resulting in an average growth of 41% in turnover, creation of 200 jobs and coaching of 1750 young entrepreneurs. 85% percent of the graduates are still in operation. CTIC offers two types of services: incubation including office space, coaching, mentoring, business development services, tax and accounting services, and monitoring; and short term business acceleration support consisting of training, mentoring, networking and linking to capital sources.

³¹ 656 FCFA=1 EUR

Table 3: Overview of Business Support Available in Senegal

Type of Business Support	SME Segment Focus	Challenges
Incubators and accelerators (CTIC, Jokkolabs, Enablis, Orangefab, Cofina Startup House)	<ul style="list-style-type: none"> High growth start-ups Moderate growth entrepreneurs opportunity driven SMEs 	Subsidized – doubtful potential to offer services on a commercially sustainable basis Absence of sector-focused incubators (such as those in East Africa)
Business competitions (e.g. GREAT entrepreneur, Jambar Tech Awards)	<ul style="list-style-type: none"> High growth start-ups 	Mostly for exposure, temporary intervention
Commercial BDS	<ul style="list-style-type: none"> Moderate growth entrepreneurs Gazelles 	Well-developed and affordable, although mainly Dakar based. Limited demand.
ADEPME	<ul style="list-style-type: none"> Moderate growth entrepreneurs Gazelles 	Effective approach, upscaling needed
BMN	<ul style="list-style-type: none"> Gazelles 	Mostly focused on gazelles and large firms, not the 'missing middle'
Business associations, business networks (Club d' entrepreneurs, travel agent association, FP2A)	<ul style="list-style-type: none"> High growth start-ups Moderate growth entrepreneurs Copy-cat SMEs 	Not a developed form of business support in Senegal
Embedded BDS (venture capital, angel investors)	<ul style="list-style-type: none"> Gazelles Moderate growth entrepreneurs opportunity driven SMEs 	Angel investors not common, though there is some diaspora participation Venture capital is limited

Enterprise Perspective

Smaller, necessity- and opportunity-driven entrepreneurs indicated that ADEPME and especially BMN mostly serve a well-known network of larger, high growth firms, of which 60% have turnover of 500K-5MFCFA³². Obviously, these firms do not all belong to the "missing middle". As ADEPME explained, "We do not have the capacity to support every firm; therefore we focus on creating success stories and best practices".

³² *Idem*

In addition, it appears difficult to scale these government business support approaches, as enterprises usually need customized one-on-one support. The respondents from BDS organizations mentioned that they can each handle about ten SMEs per year, and that almost all costs are subsidised.

Enterprises indicated that it is easy to obtain support with topics like business plan development, accounting and marketing studies. However, SMEs do not always want to make use of external expertise, for various reasons, such as not trusting the advisors, or not being aware that services could be of high strategic value.

Financier Perspective






Some of the business support actors are providing financial support, usually in the form of grants, but also occasionally linking SMEs to one of the state financiers BNDE, FONSI, or FONDGIP. BMN provides co-funding for investments in hardware (20-30% of the portfolio) and business development services (>70%), and has a partnership with 2 banks (BNDE and Orabank) to allow their subsidies to be used as loan repayment. However, processing times are lengthy and loans are not always awarded, and the program is not generating a learning process in the banks that leads them to embrace SME-lending as a new line of business. Instead, the BMN subsidy scheme is seen as a form of subsidised lending that proves SME lending is not a commercially viable business.

The handful of investors in Senegal see incubation/acceleration programs as delivering potential investment cases for their pipelines. Banks seem to be less connected to these organizations. Some funders provide embedded non-financial support and help SMEs to further develop and formalise. The investor community in particular sometimes helps SMEs in areas such as company set-up, strategy development, financial management and market understanding. This type of assistance is clearly part of the business model of investors such as Etimos and Teranga, but to some extent also of funders such as Locafrique, Orabank and Cofina. For example, Teranga usually works for 6 to 9 months with an enterprise before it is considered 'investable'. These capacity building services decrease the risk of non-repayment by the SME and are largely unsubsidised, mostly targeting entrepreneurs in the IT or services sector and to a lesser extent agribusinesses. However, some funds do receive donations to assist SME formalisation.

Analysis and Possible Solutions

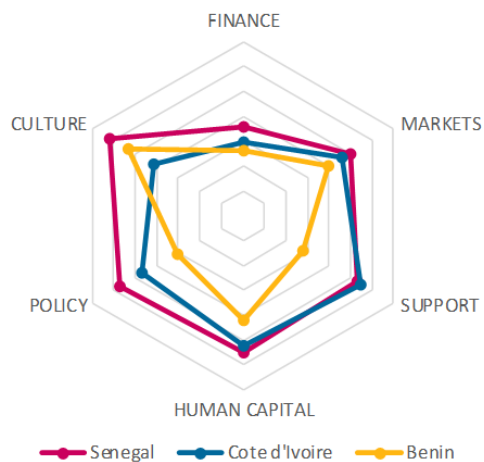
The business support ecosystem is in place, in the sense that all typical elements do exist, but the scale of outreach is small. The market for professional business support services is nascent, but still achieves greater outreach than the publicly-funded initiatives. Market development of private services is not at top of the agenda of the Senegalese government, although government support would be needed to expand services beyond Dakar and the relatively small number of firms that receive services now.

It was noted by many stakeholders during the interviews and in the workshop, that there is a real need to better synchronise SME support initiatives in Senegal – since currently the international organisations, government, NGOs and commercial actors all work in isolation. Better coordination would yield synergies and greater efficiency in SME support efforts.

	 Description	 Actions
 Strengths	<ul style="list-style-type: none"> • There are several projects and BDS providers that support SMEs, albeit on a limited scale • There is awareness among donors and financial institutions that SMEs need to be supported • ADEPME is playing a positive role in SME development 	<ul style="list-style-type: none"> • Stimulate demand for commercial BDS – which will increase quality and quantity of BDS offered • Develop a database of BDS providers and create a certification system • Set up new business incubators and accelerators that focus on capital intensive sectors (agriculture and manufacturing) • Develop a national SME development platform, convening all local stakeholders
 Weaknesses	<ul style="list-style-type: none"> • SMEs are not aware of their needs for capacity building and technical assistance, let alone the opportunities for BDS that are open to them • There are insufficient BDS providers and funds to cover all SMEs that could benefit 	<ul style="list-style-type: none"> • Set up an information campaign to inform SMEs about the importance of formalizing their firms and developing their management capacity • Set up matching grants or a voucher system to subsidize access to BDS for SMEs • Combine SME support services with emerging SME finance (embedded technical assistance)

4 Summary and outlook

This report has analysed the challenges in the Senegalese ecosystem, highlighted the key reasons for them from the perspectives of enterprises and financial service providers, and suggested solutions that could be considered by individual actors or for an ecosystem-wide initiative of stakeholders.



Senegal is a stable and growing economy, with significant regional trade opportunities. Overall, data on the Senegalese ecosystem suggest that it is an environment for SMEs that is fairly “average” compared to countries in the region. Of the six domains, nearly all composite scores are about average for the francophone region. Only the finance domain scores lower than average for Sub-Saharan Africa (though it is still about average for the francophone region).

Senegal has a significant number of SMEs – an estimated 250,000 – yet only few are formal (about 7,000). Data is scant on the informal enterprises, but interviews with local stakeholders show that few of the formal SMEs are seen as being growth-oriented start-ups and “gazelles”, while the vast majority are informal, moderate growth enterprises and even more are small necessity entrepreneurs. Both segments are critical for private sector development, but do require different support, and the support has likely different effects.

Overall, there is a major gap in financial service provision to SMEs, as both debt and equity are hard for growing SMEs to obtain. The smallest enterprises can access microfinancing to cover most financial needs, but larger firms have few banks to turn to for debt. Only medium-sized, formal enterprises which are much larger than average, and need relatively large loan amounts, are able to access bank loans.

4.1 Key observations

The purpose of this study has been to get an in-depth understanding of why it is difficult for SMEs to access financing for growth. Our research indicates that the key issues for this are rooted in several interlinked ecosystem domains. The main reasons for the lack of access to finance of SMEs in Senegal can be summarised as follows.

- **Entrepreneurial culture:** Data suggest that cultural attitudes towards entrepreneurship are about average when compared across SSA, and comparable to the region. Senegal has many active entrepreneurs, and there is a vibrant group of stakeholders – including government agencies – to support entrepreneurship. However, success in starting up or growing an enterprise

is not widely celebrated, nor are there strong role models for aspiring entrepreneurs that are widely accepted. In all, the image or perception of SMEs is more defined by the challenges they face than by the opportunities that exist.

- **Informality:** Pervasive informality is a major obstacle for access to debt, since it causes SMEs to be “opaque” to banks. Informality does not encourage strong financial management and transparency, which is a major stumbling block for accessing finance. Absent credit history and a generally perceived lack of professionalism reduce banks’ interest in developing and marketing better financial services to SMEs. Commercial and subsidised BDS providers exist but they are not always valued by entrepreneurs because of their limited offer, poor quality and SMEs’ unwillingness or inability to pay for their services.
- **Nascent investor community:** In terms of equity finance, only a handful of nascent funds are operating at this time. The reasons for this are manifold: the universe of investible SMEs is small and not easily identified, exit options are difficult to realise, and near-absent access to short and long term debt reduces ‘investibility’ for equity investors. Furthermore, for language, perception and economic reasons, many international and regional impact and conventional investors have so far ignored Senegal or failed to make significant inroads for exploring opportunities in the market.
- **Limited Debt Financing:** The availability of debt financing is hindered by many factors, including excessive collateral demands, which in turn is caused by illiquid asset markets, absent credit registration, and a weak legal infrastructure. All of these factors drive up the cost of credit and create an unattractive value proposition for prospective borrowers. Policy compounds the problem by imposing an artificial interest cap, which further undermines bank interest in focusing on SMEs and improving services to them. As a result, credit products available for SMEs are essentially limited to short term bank loans for periods of less than 1 year.

4.2 *Looking forward*

Ultimately, the many reasons for the lack of financing options for SMEs in Senegal can be linked to the underlying problem that there are **not enough solid enterprises in the ecosystem** to warrant investment in financial product development, development of associated staff capacity and expanded marketing to SMEs. As long as the root causes for this issue are not tackled, it will be very difficult to achieve significant progress no matter how many guarantee funds or credit lines are set up. Although access to finance is listed as the main constraint by many SMEs, the challenge ahead for the country is to support the development of solid, credit-worthy enterprises to sustain tailored lending programs for SMEs.

Therefore, looking forward, the two most promising pathways to closing the financing gap for SMEs are, on the one hand, helping entrepreneurs grow out of informality and into bankable, investable businesses; and on the other hand, stimulating more appropriate and widespread financial service delivery to SMEs.

Both approaches require changes in more than one of the domains in the ecosystem.

The vast group of 'missing middle entrepreneurs' represents both a challenge and an opportunity at the same time. The issues are complex and systemic in nature and fully addressing them is therefore more complex and may take much longer. However, the size of this group and its growth potential can make even small steps targeting a small portion of the group extremely impactful in terms of potential for growth, employment generation and increased incomes.

Solutions recommended in this report have emerged from our analysis and ideas proposed during the stakeholder workshop as well as during the interviews with participants leading up to the workshop³³.

1. Build on the existing public SME development system

The Senegalese government has a positive and pro-active attitude towards SME development, and several initiatives have started to address key issues. A support agency specifically for SMEs has been established, as well as an SME bank, a guarantee fund, public private partnerships (e.g. CTIC), and plans to set up a one-stop-shop for small business registration. Although these SME development initiatives currently favour high growth entrepreneurs or SMEs in certain sectors, they do provide a basis upon which to build further activities that could reach a much larger range of SMEs. Government agencies like ADEPME and BMN as well as the guarantee fund FONGIP could be assisted to increase the scope of their engagement.

2. Expand business support

The business support ecosystem in Senegal is smaller and less developed than in Kenya, for example, but the key elements are in place. So far, there is a small start-up scene, (hubs and incubators). There is both private and government-supported BDS provision, but networks, associations and collaborative platforms are still relatively few and new. In other words, there is a basic set of organisations in place and functional that could be expanded and better equipped to reach more SME segments. One area of expansion should be adding capacity building themes to the menu of services, such as education about different financing options such as leasing, equity, and angel investors, and how to utilise them.

3. Celebrate success

Currently, the perception of SMEs is defined more by the challenges they encounter than by the opportunities they present, and few role models exist for aspiring entrepreneurs. Celebrating business success is essential to inspiring many actors in the ecosystem, including financial service providers, to see SMEs as a promising future market that justifies the effort and risk necessary to exploit it. When entrepreneurship is publicly celebrated, respected and supported, it sends a much-needed cultural signal for all SMEs and entrepreneurs. Tools to celebrate success in entrepreneurship and elevate the profile of entrepreneurs could include things like business plan competitions, conferences and media events.

³³ See Annex 5 for a list of workshop participants

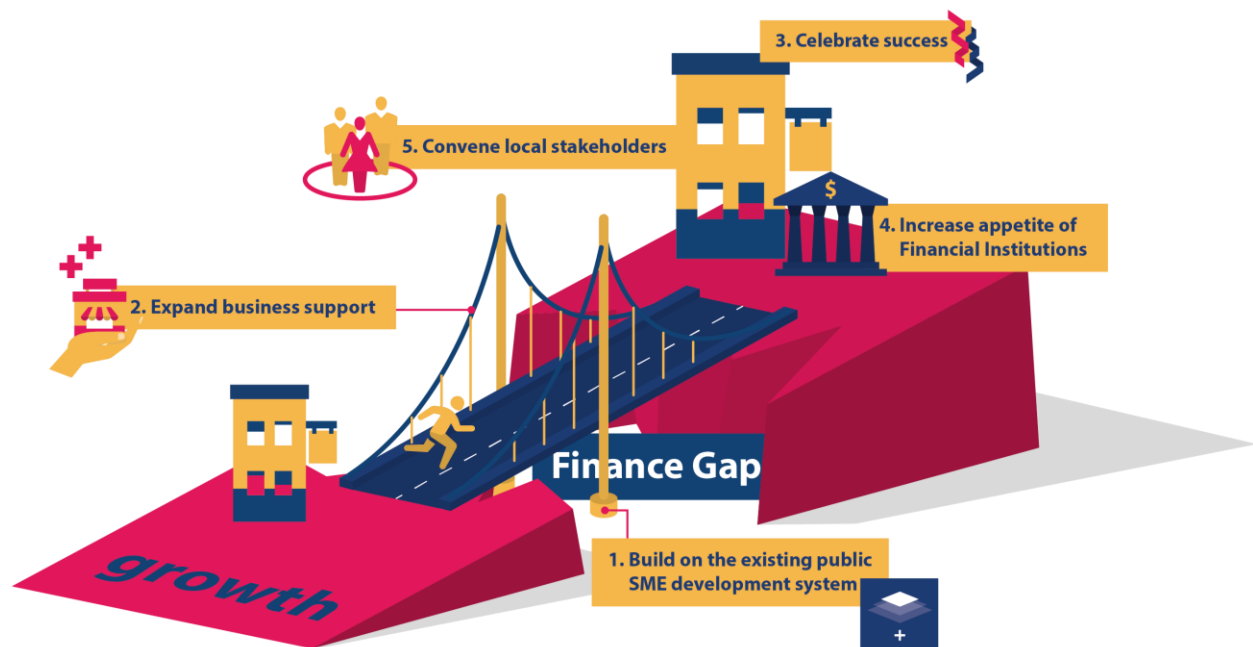
4. Increase appetite of Financial Institutions

Commercial banks consider SMEs a too risky and expensive to warrant focused attention, which results in a limited product offering and a lack of innovation in SME finance product development. For the last few years, a few financial institutions in Senegal have been dedicated to serving SMEs, including banks such as Cofina, BNDE, and CNCAS; MFIs like Microcred; and investors such as Teranga. If these SME-oriented financial institutions are able to reach profitable numbers through customized systems and economies of scale, it may incentivize commercial banks to cultivate the SME segment.

5. Convene local stakeholders

In general, the government's role should be pro-active in convening and supporting the stakeholders in the process of strengthening of the SME ecosystem. During the stakeholders' workshop, participants enjoyed being gathered together, and indicated a need for a platform or network representing the SME sector. Foreign assistance will be essential to starting the process of platform development. Stimulating, supporting and coordinating these efforts should be the role of government actors.

Figure 9: Possible solutions to bridge the finance gap in Senegal



Annex 1: List of interviewees

A. Entrepreneurs

Name	Function	Organisation
Cheikh Tangué Thioune	Manager	3B Senegal Forage Sarl
Mouratte Ndaw	Auditeur interne et financier	BAEAUBAB
Marieme Faye Diagne, Momar Dieye, Omar Kebe and Mamour Thiam	Vice president and team	Centrale d'achat Keur Soce
Dr Valérie Ndiaye	Directrice	Esteval
Mme Mariama Mbodji	Directrice Maria Distribution	FP2a
Fatou Seck Ngom	Présidente	GIE Le Forestier
Mme Fatoumata DIOP	Présidente	GIE Oumou Mountaga Tall
Fatoumata Niagne BA	Présidente	GIE SAFNA 3
Anta Badiane	Transformatrice	
Marie Lopy	Présidente	Groupement SAFNA
Mame Diarra Sy	Transformatrice	
Ibrahima DIAGNE	PDG	Groupe Syft
Cheikh Tidiane Touré	Directeur Général	LPD (Librairie Papeterie de Dakar)
Malick SOW	Comptable	
Awa Ndiaye	Présidente	Neexna Jus
Moussa Sall	Président Directeur Général	Société Anta Air
Cathy DIEYE LO	Directrice	Teranga Entreprise
Randa FILFILI	Manager	Zeina Exoticfruits

B. SME support structures

Name	Function	Organisation
Mabouso Thiam	General Director	ADEPME
Claire Boisseau	Chargée de mission	AFD
Cristian Sarr	Expert financier	AfDB
Amadou Abdoul Sy	General Director	Agence de Régulation des Marchés
Pierre Chapusète	Expert Economie	Ambassade des Pays Bas
Joost Van Dieren	Deuxième Secrétaire	
Fatou Dyna BA	Expert industrie	Bureau de Mise à Niveau
Laissa Mouen	Expert	Cofina Incubator
Babacar Birane	Co-founder and CEO	CONCREE
Pape Mademba Ndao, Ismael Dione, Safietou Diouf DIAWARA	Directeur	Direction des PME
Youssoupha Kobar	Division Suivi et Evaluation	
Amadou Sall Dial	Directeur	Direction de la Petite et Moyenne Industrie
Mme Emilie Bassene	Ingénieur	
Ibrahima Ba	Directeur Général	Enablis Sénégal
Tiphaine Crenn	Regional expert	IFC
Oumar Cissé	Directeur Général	InTouch
M. Abdoulaye AIDARA	Président	QABCOO (Quality Agriculture)
Bara Ndiaye	Project Manager	SNV
Ms Binetou Ka Niang	Director, Association Services	The Seep Network
Seydou Wade	Public Private Partnership Specialist	USAID Sénégal

C. Financial players

Name	Function	Organisation
Mamadou Lamine Ba	Expert	APIX
Babacar Thiaba Ndiaye	Directeur de l'exploitation	BNDE
Babacar Gueye	General Director	COFINA
Mme Diatou oulibaly	General Director	Etimos
Abdoulaye DIASSE	Directeur du Pôle Finance et Gestion des Risques	FONGIP
Pape Oumar Syr Diagne	Investment officer	FONSIS
Mme Seynabou BA	Investment officer	
Olivier Furdell	Manager	Teranga Capital
Babacar Gueye	Directeur des opérations	LOCAFRIQUE
Gaetan DEBUCHY	General Director	Manko
Assane DIEBATE	Responsable des Produits Bancaires	MICROCRED
Daouda DIAGNE	Directeur	Orabank

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Annex 3: List of acronyms

A2F	Access to Finance
AFD	Agence France Développement
AfDB	African Development Bank
BDS	Business Development Services
DBI	Doing Business Index
ECOWAS	Economic Community of West African States (CEDEAO in French)
EIB	European Investment Bank
ES	Enterprise Survey (WB)
FCFA	656 Franc CFA = 1 EUR
GCI	Global Competitiveness Index
HDI	Human Development Index
I&P	Investisseurs & Partenaires
MFI	Micro-Finance Institution
SME	Small and Medium sized Enterprise
SSA	Sub-Saharan Africa
UEMOA	West African Economic and Monetary Union
WB	World Bank
WIC	Women Investment Club
WEF	World Economic Forum

Annex 4: Methodological note

#CTG francophone West Africa | Country studies

Overall methodology design

The methodology used for this study builds on existing entrepreneurial ecosystem tools notably the **Babson entrepreneurial ecosystem model** and the associated **ANDE³⁴ Entrepreneurial Ecosystem Diagnostic Toolkit**, published by the Aspen Network of Development Entrepreneurs (ANDE). The first study for the DGGF #ClosingTheGap series has been piloted in Kenya and has applied a contextualised version of the **ANDE Diagnostic Toolkit**. Based on the lessons learned from this pilot, and by taking into account the specific context of francophone West Africa, the methodology has been customised for the purpose of this study. The key methodological principles are as follows:

- **Intense qualitative data gathering:** The purpose of the ANDE methodology is to provide a diagnostic tool that can be applied in rapid assessment of entrepreneurial ecosystems. However, one of the biggest limitations of this research is the access to up-to-date, reliable and representative data on local enterprise performance and perception of the ecosystem. Primary research and interviews with key stakeholders or a stakeholder workshop are therefore critical to get relevant information and to complement analysis based on existing data sets such as World Bank Enterprise Survey Data³⁵.
- **Including financier and enterprise perspective:** The ANDE toolkit is designed to perform an overall analysis of potential bottlenecks for local entrepreneurs, and identifies key constraints which merit deeper analysis. As the focus of this research is on access to finance as one of the major bottlenecks to enterprise growth, it has been relevant to also analyse the dynamic behind the mismatch between financiers and entrepreneurs, in particular owners of SMEs. Therefore the analysis includes the perspective of both financiers and entrepreneurs on the different ecosystem domains. This enables to get an in-depth understanding on how the wider ecosystem facilitates or constrains access to finance for the different type of SMEs that operate in the ecosystem.
- **Ecosystem scoring based on multiple indicators from different indexes:** The Kenya pilot utilized the World Bank Enterprise Survey data to conduct an ecosystem analysis based on a total of 30 indicators. Given the fact that statistics for the selected West African countries are often unreliable and there is a wide difference between the various indicators used by indexes, we have used multiple indicators from different indexes (including the World Bank Enterprise Surveys) to analyse the entrepreneurial ecosystem in each target country, through a ready-made tool that uses over 200 different indicators across the ecosystem domains³⁶. See also box 1. The tool could be applied to 4 out of the 6 countries that are part of this series; for Guinea and Mali the availability of data was insufficient. For those countries, we have instead considered individual selected indicators such as WB doing business and WEF GCI³⁷.
- **Six ecosystem domains:** For this study we have followed the Babson entrepreneurial ecosystem model, one of the leading models in the current entrepreneurial ecosystem thinking, which uses six domains). The ANDE Entrepreneurial Ecosystem Diagnostic Toolkit uses eight domains (including separate domains on infrastructure and R&D), however this was considered not to be functional for this study because of (i) Lack of detailed data for the separate domains, (ii) distinctive character of the domains (because of the regional character of this study, domains were included that can show a difference between the six countries).

³⁴ published by the Aspen Network of Development Entrepreneurs

³⁵ <http://www.enterprisesurveys.org/>

³⁶ Developed by Enclude for InfoDev

³⁷ World Economic Forum Global Competitiveness Index

The six ecosystem domains and key indicators are presented in the table below

Culture; *is the culture enabling entrepreneurship?*



- Entrepreneurial spirit
- Women and youth entrepreneurship
- Ethical behaviour of firms

Finance; *can the entrepreneur gain access to debt, equity and other products?*



- Availability and accessibility of debt finance for SMEs
- Availability and demand for equity for SMEs
- Availability of financial support instruments and structures (guarantee funds, credit bureau etc.)

Human capital; *are the required human resources accessible for entrepreneurs?*



- Enrolments at primary, secondary and tertiary levels, quality of education
- Extent to which entrepreneurship is included in education
- Availability of on-the-job training, workers offered formal training
- Availability of (informal) training and mentoring (e.g. business angels, role-model entrepreneurs)

Policy; *are policies enabling and facilitating entrepreneurship?*



- Political and economic stability of the country
- Regulatory framework (ease of doing business, formalisation of SMEs, bribery)
- Government interventions to support SME development

Markets; *do entrepreneurs have sufficient business opportunities?*



- Access to national, regional and international markets
- Infrastructure (electricity, transport, ICT)
- Real annual sales growth, annual employment growth

Support; *do entrepreneurs have access to SME support services?*



- Availability, accessibility and quality of incubators/ accelerator programmes
- Availability, accessibility and quality of commercial BDS providers
- Networks, platforms and associations.

Research steps

The country studies have been implemented in 3 phases:



PHASE 1: BASIC ECOSYSTEM SCORING (DESK STUDY)

In order to map these domains and identify solutions and opportunities for improvement in the entrepreneurial ecosystem, first a **desk study** was undertaken. The desk study had different components; firstly we have analysed how the country scores compared to other countries in Africa (using the tool, or by looking into specific reliable sources notably the WB doing business indicator, WEF Global Competitiveness Index and UN Human Development Index).

In addition, secondary information was collected from research reports and publications including the WB Enterprise Survey³⁸ and other available enterprises surveys. Finally some pre-mission interviews were held with several key stakeholders such as donor representatives, financial service providers and entrepreneurs. This provided a good first overview of the key elements of the entrepreneurial ecosystem in the country. Intermediate findings were shared

PHASE 2: IN-COUNTRY DATA COLLECTION

After the desk study, a **field visit** of one week took place where representatives from various ecosystem domains were interviewed (included in Annex 1 of the report).

These discussions enriched the information from the desk study, and uncovered the root causes explaining the existence of a 'missing middle'. In addition, it has helped to identify some of the key important stakeholders (organisations and individuals) in the ecosystem that act as frontrunners in the development towards more conducive ecosystem.

PHASE 3: WORKSHOP, CONCLUSIONS AND REPORTING

These and other relevant stakeholders were gathered at a **workshop**, to validate the findings from the study, and come up with concrete solutions that are 'owned' by local stakeholders. An interactive format was used whereby participants work in small groups to start prototyping potential interventions and to come up with concrete intervention outlines.

The results from the research and workshop are presented in a report which is highlighting the financier and SME perspective of the six ecosystem domains, in order to reveal the reasons behind the reasons. Focus of the conclusions is on deriving possible action points to overcome certain barriers that are identified by the research team and raised during the workshops.

³⁸ DGGF is partnering with the Enterprise Survey Unit of the World Bank to undertake enterprise surveys in the countries covered by the current assignment. The findings from this survey are being used in this report³⁸, acknowledging the bias of these data towards formal, and therefore larger and more professional firms

Box 1: Ecosystem scoring grid

Rationale for developing an ecosystem scoring grid

- Entrepreneurships **ecosystem scorings** differ in their results, especially when developing countries are concerned. E.g. Uganda scores as the best entrepreneurship ecosystem according to GEM, while scoring as one of the lowest according to GEDI's list.
- **GDP/capita levels** do not necessarily reflect the extent to which a country has suitable conditions for entrepreneurship. Especially under \$20,000 (=developing countries)
- **Poor numbers** problem: data collected for entrepreneurship surveys not always reliable (small sample size, biased selection), combining different datasets can level out the unreliability.

	FINANCE	MARKETS	SUPPORT	HUMAN CAPITAL	POLICY	CULTURE	Average 6 domains
FRANCOPHONE WEST AFRICA							
Senegal	3,53	5,00	5,35	5,49	5,67	6,16	5,21
Cote d'Ivoire	2,93	4,64	5,51	5,24	4,66	4,14	4,52
Cameroon	3,50	4,62	4,90	4,77	3,61	3,92	4,22
Togo	3,21	3,81	3,94	4,59	5,04	4,60	4,20
Benin	2,62	3,99	2,82	4,19	3,04	5,33	3,66
Burkina Faso	2,61	3,33	3,35	2,50	4,28	5,46	3,59
ANGLOPHONE WEST AFRICA							
Nigeria	3,64	5,35	2,59	4,43	4,21	4,25	4,08
Ghana	4,22	5,25	4,02	5,98	5,08	5,81	5,06
EAST AFRICA							
Rwanda	5,05	5,23	5,99	6,05	7,99	7,74	6,34
Kenya	5,96	6,64	6,09	6,46	4,93	5,38	5,91
Ethiopia	2,96	3,34	4,33	4,26	5,20	6,46	4,43
Uganda	3,89	4,12	4,21	4,09	4,63	5,23	4,36
Madagascar	2,86	3,82	3,87	3,87	4,17	6,31	4,15
Tanzania	3,10	4,19	4,03	3,50	4,34	4,24	3,90
SOUTHERN AFRICA							
South Africa	6,90	7,68	7,25	6,52	7,85	6,25	7,08
Botswana	6,16	4,74	5,14	5,42	7,23	6,50	5,86
Namibia	5,36	4,94	5,59	4,81	6,91	6,50	5,68
Zambia	3,31	5,24	4,84	6,23	6,05	6,31	5,33
Mozambique	2,57	4,10	4,81	3,78	5,17	4,59	4,17
Malawi	3,43	3,09	4,06	3,97	4,71	4,83	4,02

Our approach

- Using **multiple indicators** from different indexes and combining these along the lines of the 6 domains of entrepreneurial ecosystems (Babson model).
- In order to make scores comparable, they have been **normalised** them: re-calculated the scores on a 0-10 scale.
- Also, the ecosystems were scored **relative to each other** within the sample of SSA countries
- For each of the 6 domains identify a set of indicators to determine the advancement of the specific ecosystem feature. Sources used:
 - Global Competitiveness Index (GCI), World Economic Forum
 - Global Entrepreneurship and Development Index (GEDI), George Mason University
 - Enterprise Survey (ES), World Bank
 - Doing Business (DB), World Bank
 - Global Innovation Index
 - Legatum Prosperity Index

Countries

The ecosystem scoring tool could be applied to 4 out of the 6 countries that are part of the #CTG francophone West Africa country studies. The scoring was done for Senegal, Ivory Coast, Togo and Benin. Data were insufficient to do a reliable scoring for Guinea and Mali.

Annex 5: List of participants workshop

The workshop took place on 23 September, 8:30-13:00 - Résidence de l'Ambassadeur des Pays-Bas in Dakar.

#	Nom et prénom	Fonction	Structure
1	Aminata Ba	Directrice Exécutive	MEDS
2	Aminata Ly	Dir. Strategies d'investissement	FONGIP
3	Babacar Birame	Directeur	Conacre
4	Boisseau Claire	Chargée de mission	AFD
5	Cakpo S. Guy-Lionel	Investment Officier	Etimos Africa
6	Cheikh Beye	Chercheur	ITA
7	Cheikh Tangué Thioune	DG	3B Senegal Forage
8	Diagne Rhanata	Macro-économiste	BOS/PSE
9	Diallo Arouna	Responsable Projets	INNODEV/UCAD
10	Diasse Aboulaye	Directeur Pole Finance	FONGIP
11	Diebate Assane	Responsable des produits bancaires	MICROCRED
12	Dione Ismaïla	Chef de division	Direction des PME
13	Diouf Abdoulaye	Consultant	UNCAS
14	Djibril M. Mbengue	Directeur Senegal	Oikocredit
15	Eva Sow Efoien	Director	CTIC Dakar
16	Fataumata Mbengue By	Directeur	Empasais Capital
17	Fatou D. BN	Expert Industrie	BMN
18	Gueye Babacar	Directeur ... Locafrique	Locafrique
19	Gueye Mamadou	Journaliste	Le Soleil
20	Ibrahima Biagne	PDG	Syft Senegal
21	Kane Fatimate	CDE	ENABLIS
22	Koundouno E.	Consultante	SNV
23	Lahlou Kenza	Chargée de Nissais Group	Bank of Africa
24	Liautaud Clarisse	Chargée de programmes	Union Européenne
25	Lo Catty	Directrice	Teranga Entreprise
26	M'Bodgi Marianne	Directrice GLE	Maria Ser.... Bank
27	Mademba Ndiaye	Sr.C.O.	Banque Mondiale
28	Malloum Moustapha	Chargée de projets	AFD

#	Nom et prénom	Fonction	Structure
29	Mouen Laïssa	Lead, Entrepreneurship & Innovation	Groupe Cofina
30	Mouratte N'daur	Coordinateur interne	BAEAUBAB Sénégal
31	Moussé BAO	Project manager	Positivo planet
32	N'dour Eric	Zone Director	Bank of Africa
33	Nao Low	Manager	Neteau Int.
34	Ndeye Kany Ndiaye	Analyste financier	BOAD
35	Ndiaye Ibrahima	CP/Finance	ADEPNE
36	Niox Fatamata	Secrétaire exécutif	JOKKOLABS
37	Omar Cisse	Administrator	Teranga Capital
38	Ouane Fayelle	Managing Director	Layidu
39	Papa Cheikhou Cissé	Développement des Entreprises	Chambre de Commerce Dakar
40	Papa Ndao Nadente	DG	DPNE
41	Ramatoulaye Diop	Chargée suivi évaluation	APSF
42	Randa Filfiu	DG	Zena Exotic Fruits
43	Senghor Aimé	Dir. Partenariats	UNACOIS Tappo
44	Seynaba Mbaye N'diaye	Expert en crédit	FADSR
45	Souleye W Ade	Resp. PPP	USAID
46	Sylla Ndaye Mbaye	Entrepreneuriat Féminin	MEDS
47	Valérie Q. Ndiaye	Directrice	Esteval
48	Wane Fatma	Lead SME & Value Chains	IFC
49	Zeimahou Sall	Chargée de programme	DCASEDRI

Annex 6: Notes from the stakeholder workshop

The enabling environment and financial infrastructure

- The government has several projects geared towards creating a “Maison de l’ Entreprise du Senegal,” which would gather all relevant information for SMEs in a “one stop shop”. Another initiative is the “observatoire des PME”, a portal dedicated to gathering more data on private enterprise and bringing together entrepreneurs and the stakeholders aiming to support the SMEs. The latter should be launched as part of a big campaign on making SME related data more available in mid-2017.
- The government is working on legislation to reinforce the regulatory framework and streamline the requirements to do business.
- Leasing is not well known, although there is a dedicated law which aims to develop this offering, and there is a need to create more awareness about it.

The investing community

- The current financial tools are not always well adapted to the different types of enterprises and their different levels of development. There is a need for alternative financing mechanisms and instruments. Organizations like Enblis are promoting angel investing and others are exploring the opportunity to tap into the resources of the diaspora through crowdfunding initiatives.
- “Loi sur les investissements dans les societies a fonds propres” (2007) does provide incentives for investors but application texts are missing, so these incentives cannot be applied yet.
- Investors and entrepreneurs do not speak the same language, so it is difficult to match them.

Entrepreneurship in Senegal: culture and convening

- There is a real cultural issue: too much support undermines initiative. Also francophone countries tend to subscribe to a “build it and they will come”. The assumption is that if government sets a framework, entrepreneurs will soon follow. In contrast, Anglo-Saxon culture expects entrepreneurs to take the initiative first, after which public players can build a framework around their existing practices.
- There are quite a few local actors but they are not well known, not always well equipped to support the entrepreneurs and tend to work in silos instead of collaborating with each other. What could be championed are:
- Strategic partnerships and PPPs (CTIC, which works with the BNDE and COFIDES to streamline relevant information);
- Networking among existing organizations, starting with mapping them based on the types and level of development of the member businesses;
- Increased mentoring for entrepreneurs, facilitating exchange of experiences with successful entrepreneurs;
- Capacity building for both financiers and entrepreneurs: to be more aware of the different financing options and building capacity to utilize the different tools.

#ClosingTheGap Senegal

KEY CHALLENGES FOR THE 'MISSING MIDDLE'

Assessment of the entrepreneurial ecosystem in Senegal



Market



Finance



Culture



Human Capital



Support



Policy