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**FINANCING OF SMALL AND MEDIUM-SIZED
ENTERPRISES IN AFRICA***

Prepared by the
UNIDO Secretariat

* This document has not been edited.

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This study is a follow-up document to the First Consultation on Small and Medium-scale Enterprises, including Cooperatives, based on the work of Mr. Jacques Dubois, Financial Adviser, Paris (France).

APPROACH AND OBJECTIVES

1. The difficulties encountered by small and medium-sized enterprises (SME) in Africa can be approached only if there is initial understanding of the macro-economic environment. When this stage has been reached, there must be classification of the enterprises, together with different interviews enabling us to bring the problems of the moment into better focus. The objective of this study is to propose specific recommendations in order to provide simple and effective solutions. We will deal successively with:

- (a) The economic and financial environment of the African enterprises;
- (b) Classification of the SME;
- (c) Difficulties encountered in:
 - The investment cycle;
 - The working cycle;
- (d) Management and cost of the risk;
- (e) Relationship between the interest rate granted and the rate of inflation;
- (f) The perverse effect of taxation;
- (g) Intervention by the State;
- (h) The training of heads of enterprises.

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

2. Study of the financing of the SME does not comprise solely research into the internal difficulties of the enterprise, but also into the problems created by the immediate environment. Several aspects studied bring out a close correlation between:

- (a) The enterprises;
- (b) The banks;
- (c) The international organizations;
- (d) The national, regional and world markets.

3. There is no pre-set formula, but rather a country-by-country approach is required as a function of their "trades", their socio-cultural environment and their political will. The territory evolves and the enterprise, just as any economic operator, must adapt to the vagaries of the environment. Hence the recommendations that we give are governed by that rule and we can classify them in three relative categories:

- (a) Recommendations for the States;
- (b) For the banks;
- (c) For the SME.

Recommendations for the States

4. The recommendations for the States are as follows:

(a) States should decentralize their financial and economic powers in order to give more economic freedom to their agents, and to have only supervisory power;

(b) They should refocus on the "trade" of the country concerned;

(c) They should modify the organization of the banking profession by decentralizing and helping that profession to act in an efficient manner at regional and subregional level, whereas at the present time the organization is concentrated in the major urban centres, thereby creating inertia in the matter of decision-making;

(d) They should organize a savings policy by creating new non-taxable products so as to channel financial flows into the credit organizations at lower costs;

(e) They should create new insurance products aimed at covering the exchange risk in order to prevent the enterprises having to make delayed prime cost readjustments;

(f) They should organize or delegate the adoption of a policy for effective training, consistent with the "trade" of the country;

(g) They should promote a policy of introduction of foreign investors so as to bring back the capital and the currency needed for their debts;

(h) Finally, there should be broader reflection with regard to the exchange markets so as to ensure supervision and coverage of risk. This presupposes the reorganization of certain stock exchanges and the creation of insurance companies so that the enterprises may have financial products and insurance consistent with the market. The risk would then be shared to the extent of 70-80 per cent by the State and 20 per cent by the entrepreneur, with the finance stemming from the insurance premiums and to a lesser extent from budgetary appropriations.

Recommendations for the banks and banking system

5. The recommendations for the financial and banking organizations are in line with those that have been made previously.

(a) The banks should, in turn, reorganize their profession by centring down on the different "trades";

(b) They should be set up in all regions, with a light structure and select men trained in the "trades" of the enterprises so that the latter can serve as advisers and partners;

(c) The banks, more especially the mutual guarantee organizations, should have their capital spread over several partners:

(i) The State;

- (ii) International organizations;
- (iii) Certain national partners such as chambers of commerce and trade etc.;
- (d) They should set up venture capital joint companies with these organizations (see page 10);
- (e) They should, still with the same organizations, set up mutual guarantee companies that could partially take charge of the risk of the entrepreneurs (see page 10);
- (f) By applying the savings policy, they could obtain resources at a lower cost than at the present time and generate loans at subsidized rates;
- (g) By means of a training policy they could train their staff in the trades of the enterprise in order to avoid any misunderstanding.

Recommendations for enterprises

6. The recommendations for enterprises, namely the SME, can be summarized as a number of fundamental points. The problems encountered and their possible solutions exist in actual fact only upstream or downstream of the enterprise. Effective training, which should make it possible to address:

- (a) Mismanagement (marketing, finance, production);
- (b) Improved organization;
- (c) Enhanced productivity;
- (d) Higher staff qualifications;
- (e) A good knowledge of:
 - (i) Financial markets and their constraints;
 - (ii) Legal forms possible for setting up or converting enterprises;
 - (iii) Taxation and constraints;
 - (iv) The local and regional market at the initial stage and in certain cases the international market.

I. THE ECONOMIC AND FINANCIAL ENVIRONMENT OF THE ENTERPRISES

7. The African crisis is not only a financial crisis; one must not forget the natural plagues which weaken agro-food production.

8. At the level of the States, the external debt is one of the reasons for the African crisis. The responsibility for it is shared between the lenders and the borrowers. The former made attractive offers at competitive rates, while the latter, over a period when the world prices of products such as cocoa, coffee, oilseed, etc., were remunerative, could not resist the temptation. The world prices collapsed and the burden of debt soon became intolerable.

Financial crisis, economic crisis and enterprise crisis

9. According to a report prepared by the CNPF (National Council of French Employers), average French investments in Sub-saharan Africa were 12,000 million FF up to 1983-1984, and since 1986 have been constantly falling:

in 1986 less than 1,000 million
in 1987 less than 3.3,000 million.

10. This decrease in financial flows towards Africa is both a crisis for the States and a crisis for the enterprises.

Enterprise crisis

11. We are faced with two types of enterprise:

- European enterprises
- African enterprises.

European enterprises

12. Since 1986 these enterprises, which used to invest up to 5,000 million FF per year, have cut down their investments by 70 per cent. According to a recent CNPF report, French companies account for 10,000 expatriate managers and 350,000 African employees. The reasons for the difficulties can be summed up as follows:

- (a) Fall in the consumers' purchasing power
- (b) Departure of many expatriates
- (c) Thinning out of public investments
- (d) Banking crisis
- (e) Internal debt of certain countries weighs upon the enterprise's cash flow; indeed, some States take one or even two years to pay for their credits, which increases significantly the prime costs.
- (f) The industrial and/or informal commercial sectors are unaware of the taxation, with the result that products are put on the market at very low cost.

African enterprises

13. They have the same difficulties as the European enterprises, but are liable to the additional weaknesses such as:

- (a) Deficient management;
- (b) Lack of organization;
- (c) Poor productivity;
- (d) Narrow dependence on the States.

Finally, there emerges a structural difficulty for all enterprises: a narrow market and the opposite, vast unorganized stretches, despite a praiseworthy but inadequate effort on the part of regional communities.

II. CLASSIFICATION OF SME

14. The small and medium-sized enterprises can be placed in two categories:

(a) Enterprises for which the capital is held to the extent of 51 and 100 per cent by nationals, and for which outstanding credit does not exceed 30 million FCFA*

(b) Enterprises with a workforce of less than 10 and a turnover below or equal to 50 million FCFA and an authorized capital ranging between 10 and 30 million FCFA (definition given by the Director-General of the ODIFIC company, Cotonou, Benin).

15. It should be mentioned that this definition may vary from one country to another, but that the African SME usually have the following characteristics:

- (a) Little capital;
- (b) Few personnel;
- (c) Limited turnover;
- (d) Limited outstanding credit.

To this it can be added that these enterprises are poorly organized, do not have or have only a poor administrative, accounting and financial structure, and that the heads of the enterprises lack management training (marketing, finance, management, production, etc.). They mostly act by intuition and the staff is usually unskilled and poorly trained.

15. Under these conditions, it is logical that the bank relationships, which are placed under the seal of confidentiality as regards providing information and evaluating assets, seem delicate. The difficulties encountered by the SME both from the standpoint of the top of the balance sheet and the working cycle are due to a lack of information, lack of training and lack of organization that we will enlarge upon. These inadequacies are not solely the fault of the SME, but also of the financial operators.

* One FF equals 50 FCFA.

III. DIFFICULTIES ENCOUNTERED BY THE SME

Investment cycle

17. The creation or expansion of an enterprise requires technical investments for maintaining machinery and capacity, such as:

(a) Fixed-asset investments:

- (i) Equipment;
- (ii) Machine tools;
- (iii) Fittings, installations, etc.

(b) Non-fixed-asset investments:

- (i) Leasing right, "pas-de-porte" (type of key money);
- (ii) Goodwill, repurchase by clients;
- (iii) Trademark, licence, etc.

18. These fixed assets have to be financed by the shareholders' equity and financial debt in the long and medium term (durable resources). The difference between the gross investments and the financial capital is commonly called the net global working capital.

19. An insufficiency of working capital in this type of enterprise is an international evil. It stems from the structure and legal constraints of the type of enterprise selected by the creator (SARL, SA or others). The creator tries to limit his own participation to the legal minimum required, usually through lack of funds, and negotiates his financial debts with the banks. Despite a convincing file, the banks, as a matter of caution, cannot initially allow him a debt greater than his own funds.

20. In Africa some people settle the problem of guarantees by way of the "tontine". In the event of the demise of the creator of an enterprise, the survivor remains the owner of the enterprise, as though the deceased had never existed, and, obviously, continues to make the payments due to the financial organizations if no life insurance has been provided for, which is rare.

21. It should also be clearly understood that to finance the creation of an enterprise involves risks which are incompatible with the purpose of the commercial banks, which is the search for profit. According to the Delegate-General for Africa of the International Training Centre for the Banking Profession (CIFPB):

"The latter, moreover, does not have either research services nor the long-term capital necessary for this type of funding."

22. The head of the enterprise is left with a structural need for money and in order to survive looks for any means of funding, whatever the cost. Without guarantees, he will often choose a product such as a real estate and/or furnishings leasing contract (crédit-bail). He is not the owner of his investment, but remains a tenant at a rate close to the market which is variable and a function of certain factors for a duration of about 10-15 years. He becomes the owner at the end of the contract and takes up the purchasing offer which may be 1 per cent of the investment. It is also

possible to obtain a period of grace for the initial rent payments. The latter may be (linear) or bell-shaped (en cloche), which permits an increase in load on the enterprise.

23. The rate risk over a long period, if the head of the enterprise does not have the training necessary or the possibility of using the cover, and/or the swap transaction, bearing in mind the organization of the local financial establishments and local stock-exchanges, penalizes the prime costs. If we add to that risk a possible exchange risk ... a contrario, a substantial tax saving is made in this way and it enables us to optimize the taxation of the enterprise.

24. The plan for financing the enterprise should provide for other possibilities for external resources. The venture capital companies may contribute to SME of good size and return in the form of minority, or even equal, share holdings in the medium term, and strengthen the enterprise's own funds; this makes it possible to finance the growth of the enterprise at a lower cost. The problem is not to find the venture capital for "good files", but to buy back the shares of the company in the long term.

25. For this to be possible, there are several possible solutions:

(a) The convertible debenture loan, which makes it possible to obtain the liquidities in order to buy back the share of capital. This loan may be subscribed by the associates and managerial staff of the enterprise, and sometimes partly by the banker. The cost of the preparations is high (file expenses, management of bonds) but the enterprise only pays interest during the course of its lifetime.

(b) The sale of a share in the enterprise to the employees in order to cover the refunding of the venture capital. The immediate effect is an improvement in productivity and, as a result, the economic profitability of the company. The taxation system in certain countries, more especially in France, provides certain exemptions for the employees. In the case of small enterprises, for purposes of survival, the recourse is to "stretch out" the supplier's credit and the social debts and taxes, with all the risks that this involves, including personal and family risks.

Recommendations

26. An interview with the Delegate-General of the CIFPB demonstrated the convergence of our opinions on the creation of new institutions which should have the following characteristics:

(a) The stock exchanges should be reorganized in order to be able to use true financial implements;

(b) Establishments specializing by trade;

(c) Establishments with a light structure and with competent personnel who can evaluate projects and act as advisers;

(d) The State should remain a minority in these financial bodies and only have a supervisory role;

(e) The capital should be shared between the State, the international financial institutions and the national partners (chambers of commerce and trade).

27. Their activities would be limited to financing the top of the balance sheet and could have the role of venture capital, i.e. they could have a share in the capital of the enterprises for a set period, while being sleeping partners. To guarantee this activity, the establishment of mutual guarantee companies is desirable. Some studies are now under way in Africa, especially Niger.

28. Finally, to obtain cash flows, there is also need to have a policy encouraging savings at State level. A network of small local banks should be developed in order to drain off these savings. The establishment in France, Germany and Rwanda of mutualist banks is a success and they grant the missing credit lines. In Rwanda the creation of a special guarantee fund supplied by 10 per cent of the profits of the commercial banks provides the following cover:

(a) 100 per cent of the appropriations in the priority sectors;

(b) The borrower pays 3 per cent of the commission on the total of the funds borrowed.

29. The negative effect is that the banks recover their funds through non-viable credits and that the borrower is not party to the responsibility for or the risk of his project. It would seem more "reassuring", if the borrower and the bank were involved in the investment risk. We can quote other mutual guarantee companies in Africa such as:

(a) SONAFI, which provides three types of funds in Côte d'Ivoire:

(i) Participation and guarantee funds for small and medium-sized enterprises;

(ii) Short-term credit guarantee funds;

(iii) Cottage industry guarantee funds.

These participation funds contribute to 50 per cent of the industrial projects and the acquisition of holdings. The experience of the mutual guarantee companies in the Central People's Bank of Morocco can be referred to:

(a) SOCMET, set up in 1984, covers the taxi owners.

(b) SOCAMAG, set up in 1985, is active in fisheries.

(c) SOCAMAF, set up in 1985, concerns itself with the cottage industry.

In Cameroon, the experience of FOCAPE I and II in the case of long-term credits has been a disappointment on account of an unduly generalized approach. It is a matter of urgency to take action to provide coherent financial structures for the economic, social and cultural realities.

Working cycle

30. The working cycle is characterized by the elements of the current assets and payable liabilities.

Stock

- + customer credit
- + other credits (tax, social)
- suppliers' working debt
- social tax liability.

The growth of the enterprise's activity has an effect on these elements. If the operating conditions do not vary, any growth in turnover is matched by an almost proportional increase in the working cycle.

31. If the top of the balance (overall net working capital) and the working cycle are joined together, that approach enables us to understand the variations in the money supply with time. It also helps us to understand, in the form of estimates, the debt or the potential cash flow that the enterprise may have. Applying some changes, this corresponds to the definition of the capacity for self-financing, an essential concept for the banks which they transform into creditworthiness or capacity for repayment, adjusted for the commitments already entered into by the enterprise.

Banking products and management of funds

32. The working cycle, which evolves as a function of the turnover, usually generates a negative money supply. Several types of banking aid are offered to enterprises which face the need for funds. Mobilization of the customer station: the commercial discount is the commonest type. The discount rate is calculated as a function of the basic bank rate, taking into account the factors specific to each customer: confidence, assessed risk. To calculate the real cost several items have to be taken into consideration: the rate of commission (endorsement, tax on outstanding debts, fixed handling costs). The basic bank rate is currently 10.25 per cent in France.

Unsecured credit

33. The banker grants the enterprise an overdraft, usually a "cash facility". This credit is expensive since there is no guarantee for the banker. If there is no prior agreement, the rate applied is the maximum rate. But very often it is negotiated and will vary with the client. The most current rate is the basic bank rate, even if the larger enterprises ask for consideration of the monetary market rates.

Factoring

34. The enterprise "sells" its sales book to a financial institution. The latter, in order to benefit from its guarantee, selects the clients. For the credits approved, the institution accepts the risk of non-payment when due. Factoring permits rapid mobilization of the credits granted to the clientele and the performance guarantee goes beyond what may be offered by credit insurance. The cost comprises two elements:

- (a) Factoring commission calculated from the amount of the credits transferred;

- (b) The debtor's interest or funding commission calculated pro rata tempcris, which represent the anticipated cost of financing. The rates vary as a function of the interest rate. At the present time, an overall cost of about 3 or 4 per cent per month of the transferred amount can be estimated for an SME.

Credit for restructuring the working cycle

35. This refers to medium-term credits - five years - which finance the working cycle to the extent of 70 per cent at rates ranging from 12 to 14 per cent according to the risk and the quality of the client. This type of credit may induce the client (and his social agents) to sign an interdependent and indivisible guarantee. The guarantee may be replaced by the guarantee of a mutualist organization. The funding of the need for working capital can lead to major mishaps in enterprises.

The ten causes of failure by enterprises

1. Failure by customers	21 per cent.
2. Overstocking	11 per cent
3. Deprivation of banking facilities	11 per cent
4. Unduly high staff costs	10 per cent
5. Death or illness of the owner	10 per cent
6. Poor accounting or mismanagement	9 per cent
7. Unfair operation	8 per cent
8. Expropriation, transfer	7 per cent
9. Drop in turnover due to the market situation	7 per cent
10. Poor organization	6 per cent

Criticism of the commercial banks with regard to their role in the development of the small and medium-sized enterprises (SME)

36. On 7 April 1988, the President of the Rwandese Republic said at a meeting of bankers:

"The commercial bank system, of which the strictness of the management, which I hasten to mention, could serve as an example for the Rwanda Savings Bank, has had certain features which are still valid today, such as its concentration in the major urban centres, its specialization only in the areas of rapid intervention that are profitable in the short term and sure, i.e. without major risk, as well as its operation that requires that decision on investment credits should be taken outside the country, as a function of the sole interest of the parent organization.

"The types of credit which were developed used to favour, by force of circumstances, prominent people, especially in towns, who were able to provide the banks with certain protection; they met the requests for funds which were often justified only by the position occupied by the applicant and, need I add, for a type of credit not for production, not for increasing the country's production capacity, but for activities of an essentially speculative nature that would hardly produce riches."

Later on, at a meeting of the Government Council on 26 January 1989, he reaffirmed:

"... It is scandalous that we concentrate 50, 100 or 200 million on one individual in order to build several houses at the same time and buy several lorries all at once, while others cannot even find 500,000 francs to build themselves a roof ...".

37. According to the Director of the Union of Rwandese Banks, criticism of the banks can be summarized as the following basic points:

- (a) Refusal to finance productive investment;
- (b) Refusal to finance in the long term;
- (c) Practice of abusive rates;
- (d) Absence of conceptual assistance with the development of projects;
- (e) Funds granted on a priority basis on the basis of the amount of the security and not on the profitability of the project.

IV. MANAGEMENT AND COST OF THE RISK

38. Before dealing with the management of the risk of the enterprise, we have to define very briefly the risks to which the enterprise is subject.

Signature risk

39. The major risk is the signature risk, i.e. the total or partial disappearance of the borrower's solvency. It can be divided into two parts:

- (a) Risk of failure: insolvency, which no one can avoid;
- (b) Counterpart risk: delivery risk, settlement risk (satisfactory date, satisfactory amount).

Liquidity risk

40. Since it is impossible to cede or acquire a financial instrument without undergoing a penalty in terms of time or price. The most striking example is for the head of the enterprise not to include in the loan contracts clauses on prior repayments associated with normal penalties, or even without them.

Exchange risk

41. The exchange risk results from variations in the exchange rate for the currencies in which the credits and debits of the enterprise are expressed, in relation to the accounting currency used by it. The exchange market is based on two philosophies:

- (a) The fixing, today and in the future, of the exchange rate for a foreign currency at a given date. We speak of long-term cover, swaps and future contracts, which are all firm commitments;

- (b) The possibility of fixing today the maximum or minimum exchange rate for a currency at a date subsequent to the current date. This involves the technique of options.

Fiscal risk

42. This is optimization of the financial results after taxes. The risk is the fiscal rectification.

Human risk

43. This is the behaviour of certain persons who enter into commitments on behalf of the enterprise involving responsibility for it:

- (a) Lack of confidence;
- (b) Error;
- (c) Misappropriation.

Rate risk

44. The rate risk results from changes with time in the level of the interest rate. Time is the principal function of the risk. As part of this study we will deal with the services provided by banks.

Risk cover

Exchange risk

45. The economic problems in Africa, such as foreign debt, lack of liquidity in the case of certain countries and attachment to the free zone in others, with the FCFA, moreover, overvalued, make it possible to say that there are no efficient exchange markets which could give enterprises risk cover. We remain a cash market blocked by the central power. The machinery is most often as follows: an SME imports products from country X, invoiced in US dollars, for example. At each opening of letters of credit, its account is debited with the countervalue in local currency at the current rate of exchange. Several months later the enterprise often receives advice of an additional debit from its bank: "Difference in rate of exchange claimed by our correspondent". The merchandise or products have been sold and the head of the enterprise no longer has a chance of changing his prime cost. Exceptional losses ...

46. The banks do not have to make the entrepreneurs carry the exchange risk on a cash market where currencies are bought as "cash" at the current rate. Relationships are not sincere.

47. Another example: let us assume an SME imports a product from country Y payable within 90 days. Since the payment will be made by opening an irreversibly confirmed letter of credit, the bank will block the funds immediately until the final transaction is complete. If, following the transaction, the client is in debit, the bank will debit him with the bank charges and expenses ... During this time the funds will be working for the bank. No remuneration will be proposed.

48. Following the policy of the West African Monetary Union (WAMU), the rate policy in favour of small and medium-sized enterprises is alignment with the foreign markets. This policy is not without serious consequences for the financing costs of certain enterprises. There are also subsidized preferential rates. Conditions for obtaining them are as follows:

- (a) The enterprise is a national one with 51 per cent of the capital belonging to nationals of the country (physical persons or corporate entities);
- (b) And its outstanding credit is not more than 30 million FCFA.

The banks have the possibility of refinancing such credit with the Central Bank (BCEAO). The latter is seeking to promote the creation of national guarantee funds for the SME in the States of the Union (Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal and Togo). This is to provide the guarantees necessary if they are to have access to bank credit. The Central Bank also refinances for the benefit of nationals the medium-term bank credits granted for buying back foreign enterprises.

49. The rate policy is alignment with the foreign markets, while the resources for development stem from foreign States, international organizations and other bodies to a considerable extent, with the balance coming from the international market. It would be interesting to calculate the mean weighted cost.

50. The market rates in France for small and medium-sized enterprises are in the case of real estate investment about 11 or 12 per cent and for material investment, 13 or 14 per cent, without considering any premiums, commission or expenses. This does not prevent some of the small and medium-sized enterprises from financing themselves in the long run from individual financial resources at broadly lower rates.

51. Within the context of each country production investment should be entitled to improved rates below those of the international market. According to the specific nature of the project, a period of grace should be granted to permit the investment load to be increased. The return on the investment is accompanied by the creation of positive cash flows which allow the financing of the investment and the growth of the enterprise.

52. Without creating savings, without improved rates stemming from low rate resources, without the offer of worthwhile advice through the banks specialized by trade, without a policy permitting swap transactions (policy of replacing fixed rates by variable rates, for example), without a training policy for all the operators, and without sincerity, it will be difficult to finance the small and medium-sized enterprises, which are the industrial, commercial and economic fabric of most of the countries.

V. THE RELATIONSHIP BETWEEN THE INTEREST RATES GRANTED AND THE INFLATION RATE

53. Monetary erosion is linked to the loss of purchasing power of a currency. A difference is made between internal monetary erosion, loss of purchasing power due to the erosion of domestic currency, and foreign monetary

erosion, which is that of domestic currency as compared with a foreign currency. The latter reflects the depreciation or appreciation of a foreign currency in relation to another currency. Monetary erosion leads to the interest rate. If a lender runs the risk of paying out a certain sum in a set currency, he will require a higher interest rate inasmuch as he will anticipate monetary erosion of the currency in which he makes the loan. This interest rate will include not only remuneration for services, but also the risk of capital loss. In practice, it is difficult to anticipate what the interest rates will be in the future, since the economic horizon is becoming so broad. Furthermore, political will may well run counter to any apparent logic.

54. To achieve the objective of developing a particular industrial sector, or more globally to revive the economy, the centralized power, using a system of regulation, intervenes in the fixing of financial rates. The lower the rate, the more the investment will lead, if it is profitable, to a short recovery time and a worthwhile investment return, and the prime costs will be thereby improved. Conversely, a high rate will penalize the profitability of the investment and the prime costs, and therefore the gross profit of the finished product compared with the market price and the internal return of the project.

Internal rate of return

55. The internal rate of return of a project is the rate for which the updated revenue (at the financing rate, if it is specific to the investment) from the project is equal to the updated expenditure. This rate appears as the rate of placement of the availabilities yielded by the project. In other words, it is the maximum rate at which an investor will agree to borrow in order to ensure 100 per cent financing of the amount of the investment. The head of the enterprise will have to compare the internal rate of return with the cost of his financial resources and the cost of the financial resources of the market. If the latter are less than the internal rate of return, his project will bring him an improvement in the overall economic and financial yield. In the opposite case the project will not be of interest to his enterprise. In conclusion, the interest rates and the inflation rates are highly interconnected.

56. The monetary policy of a country, which is sometimes dictated by certain international organizations, runs counter to the industrial and economic development, since it does not take the real problems into account. Financial flows are the key to development, together with the choice of the loan rates, whereas we see a reduction in the amount of money and the introduction of strict saving. "What use is it if inflation in the free zone countries fell below 5 per cent in 1990, if we face the disastrous economic situation that we know. Some people feel that inflation limited to 12 or even 15 per cent is more of a motive force for development than a brake." (A. Le Noir in the "Jeune Afrique Economique" for January 1991.) The return by the States to legal credibility is also a point essential for the return of foreign investors and for the contribution of capital.

VI. THE PERVERSE EFFECT OF TAXATION

57. The enterprise is liable for corporation tax or to tax on the industrial and commercial profits, according to its legal statutes. Deductible charges meet the criteria of the General Fiscal Code. As far as the financing of an

investment is concerned, only the redemptions made (linear or degressive redemptions) and the loan charges are deductible. It is rare when the head of the enterprise can equalize the tax-deductible charges with the charges actually paid out. A substantial gap may appear and the consequence of it is to pay tax on income which does not exist. For example, an enterprise acquires equipment for 1 million FF that it redeems in five years degressively. It finances its purchase by a loan of 800,000 FF at a rate of 10 per cent repayable over 10 years with constant annuities. This enterprise, moreover, is profit-making. The rate is assumed to be 50 per cent. The deductible charges are: depreciation and financial charges. The actual payments are the financial depreciation and the financial charges, the two together representing the repayment annuity. This means that the enterprise will pay out 288,000 FF during the lifetime of the loan, without them bringing it any tax deduction. The cash flow will be taken directly from the margin. This service is rarely provided by the banks and it is necessary for the entrepreneurs to be trained for fiscal optimization of their debts. If in our example the head of the enterprise had selected the funding in the form of lease credit, the problem would not have arisen. Indeed, the repayment rate would have been considered a totally tax-deductible charge. The same applies to all sorts of taxation systems which only allow partial deduction. It often happens that we encounter enterprises with a positive balance sheet and difficulties in finding capital.

VII. INTERVENTION BY THE STATE

58. Before dealing with intervention by the State in the true sense, it would be desirable to recall some major macroeconomic data. Let us remember that the African crisis is not only a financial crisis, but that it is the concatenation of several factors; more especially, the intervention of the international organizations forces the States to fall into line with certain economic policies: control of inflation, reduction of the money supply, budgetary savings and so forth, are conditions for granting new credits.

59. The cultures and the socio-cultural profiles are forgotten. The almost immediate effect is to root these countries firmly in the crisis rather than solve the problem. The economic reception structures needed for an economy to be developed are lacking and we see a "destructuring" without a replacement solution. How can we speak of financing small and medium-sized enterprises when the financial flows run out and we see that the survival alone of these countries in the short term takes the form of either foreign financial aid or a spiral of new debts. For the sub-saharan countries within the Monetary Union it is true that the attachment to the free zone is a good and bad thing at the same time. A good thing, since it makes it possible to have one accounting unit, an instrument of exchange, and a bad thing because it does not take into account the realities of the economy of each country and their structural difference. The FCFA may seem overvalued to some people. Will the example of the ECU in Europe be a basis for reflection and for seeking to organize a monetary union that will take the differences of each one into account?

60. The difficulties of the small and medium-sized enterprises can be understood as a lack of flows, overcentralized organization of the banking system, and non-specialization on the part of the financial organizations which are not able to advise their clientele through ignorance of the trades.

The problems of the enterprises are worsened by heavy taxation, which penalizes and hardly stimulates at all. It should be noted that in certain countries commendable efforts have been made to set up enterprises. The expatriates decrease from day to day (see above) and it should not be forgotten that foreigners are the bringers of capital. The sectarianism (economic, legal and financial) of some of them leads to their departure and blemishes the credibility of States. The most immediate recommendations can be summed up as follows:

- (a) Organization of a widespread banking network at regional and subregional level in order to drain off the savings;
- (b) Creation of new financial instruments for tax-free savings;
- (c) Creation of support for mutual guarantee organizations;
- (d) Creation of venture capital companies jointly with international organizations, local banks and semi-public bodies such as chambers of commerce and trade;
- (e) Specialization of banks in terms of trade or recruitment of experts;
- (f) Development of insurance contracts associated with exchange risks and rate risks. Establishment of insurance companies by the State where the risk is 70-80 per cent covered, according to the type of file, would seem to be a solution modelled on COFACE in France;
- (g) The State should promote foreign investors by attractive taxation. Too much taxation kills taxation through fraud and discouragement;
- (h) The State should abandon its centralizing power and only retain supervisory power;
- (i) Countries should specialize in the trades they know best;
- (j) Training of all economic operators should be a priority (see section VIII).

VIII. TRAINING OF HEADS OF ENTERPRISES

Training of economic operators

61. The training policy depends on the objectives one hopes to attain. Our plan covers both the heads of enterprises and the bankers. The latter have knowledge of the bank, but rarely know anything about the economy of an enterprise.

Training of heads of enterprises

62. Since the population is heterogeneous, the training should make it possible to acquire the knowledge that every manager should possess. Within the present context of an SME, heads of enterprises should:

- (a) Muster the intelligence of the different management tools;

(b) Understand and resolve problems, including the development of the enterprise;

(c) Integrate the new dimensions of enterprise management into an environment which is more and more complex, international and turbulent;

(d) Assume in a still better way their present and future responsibilities by developing their capacity for anticipation; and

(e) Be capable of clearly presenting their files to financial organizations, i.e. complete files covering all the management problems. It would be worthwhile setting up long-term training dealing with these objectives over a period of two years at the rate of two or three days per month, with alternation with a job, or 40-50 days of continuous training. The training would enable the listeners to draw up a report at the end of the training period on either:

- (a) An enterprise to be taken over;
- (b) An enterprise in difficulty; or
- (c) An enterprise to be started.

A jury would evaluate the different papers and their oral presentation with the assistance of the heads of the enterprises examined. This jury could consist of:

- (a) The person in charge of the teachers of the course;
- (b) The representative(s) of the international organizations arranging the seminars;
- (c) The representative(s) of the financial organizations likely to fund the projects.

Indeed, these seminars could be held as part of the establishment of a nursery school for persons taking over an enterprise or setting up a new one.

The design of the school could be the outcome of collaboration with:

- (a) International organizations (UNIDO, World Bank);
- (b) Foreign companies engaged in cooperation;
- (c) A venture capital company;
- (d) One or more banks in the countries concerned.

The programme could be implemented in the following way:

First year

Overall approach to the enterprise and its environment

Marketing and machinery

Production and its organization

Accounting and financial analysis

Prime cost analysis

Enterprise policy and strategy

Second year

Strategic diagnosis of the enterprise

Strategy and marketing plans

Industrial strategy

Financial strategy

Profitability and the choice of investments

The function of company administration and management

Supervision of management

Management simulation.

63. Each seminar would obviously include case studies and the second year, in addition to subgroup work, is the year of the study of the enterprise. The training may seem hard and may require intense work on the part of each participant and small groups all through the two years. The seminar already exists in France at the Institute of Management Supervision in Paris (ICG), except for the form of funding described above. Conversely, an enterprise take-over school has recently been set up at Besançon in association with the Regional Council of Franche-comté and the French Management Institute, of which ICG is part. It is possible to demonstrate that "inter-bank" seminars with the same objective for decision makers in banks so that they understand the enterprise better. Before introducing such training, the objectives must be defined at the level of each State and a pre-diagnosis made.

These types of training might seem long and strenuous, but a thorough knowledge of the job of head of enterprise needs not only the technique of the trade, but also learning about its environment.

Training is an important human investment which motivates the development of enterprises and of States.

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