

BURKINA FASO'S EXPERIENCE IN
FINANCING OF SMALL AND MEDIUM-SIZED ENTERPRISES
(SMES)

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INTRODUCTION

Since the attainment of independence by the African countries in the 1960s, one of the objectives much sought after by the leaders has been the economic development of their respective countries.

One has, thus, witnessed creation and establishment of large-scale industries which, in turn, were expected to create other industries upstream and downstream, that is to say, industrialising industries.

Burkina Faso, like the other African countries, has chosen the same path and has relatively got into debt in order to finance the large-scale industry. But after several years, it is observed that Burkina has still not come out of her under-developed state. The large-scale enterprises that were so promising, have rather constituted source of difficulties, as evidenced by their chronic budget deficit and Government subsidies.

The SME, which has hitherto been ignored and neglected has began to arouse the interest of the authorities. But such interest will come up against the problem of financing as the SME was relegated to the second position and considered incapable of developing a country.

But what is the SME in Burkina Faso : its definition and importance ?

According to the Investment Code, any enterprise whose investment is less than or equal to CFA 200 million is considered as SME. Any enterprise which fulfills this condition benefits from the advantages spelt out under Treatment A of the Investment Code.

The SME is important in many aspects, ranging from the failure of the large-scale industry, to its numerical importance, and also to its strategic importance.

Indeed, the SMEs are very numerous in Burkina Faso and are further developing because they are, undoubtedly, adapted to the Burkinabe realities. By their contribution, they can be a reliable factor for the

growth of Burkina. It is in view of their great importance that Burkina has established different systems for financing of the SME through her own resources, and has also requested for support from bilateral and multilateral cooperation. Our report will try to describe the different financing systems as well as the results achieved. It will be broken into two parts :

- financing of SMEs by the non-banking system ;
- financing of SMEs by the banking and financial system.

1. FINANCING OF SMEs BY THE NON-BANKING SYSTEM

Conscious of the importance of the SMEs in the economic and social development of Burkina Faso, the Government has established and continues to establish funds for their financing.

Other development partners also contribute to the financing of the SMEs.

Such support from the Government and partners is deemed necessary in view of the difficulties encountered by the SMEs in getting access to bank credit.

1.1. Financing by the Government

Such financing is essentially assured by the Government through the setting up of various Funds whose resources come both from the national budget and external sources.

1.1.1. The participating Fund of the OPEB (Office for Promotion of Burkinabe Enterprise)

The Office for Promotion of Burkinabe Enterprise was established in 1970 through the combined effort of the Burkina Government and UNIDO. It performs the following functions :

- training of managerial, staff and officers ;
- studies of projects ;
- preparation of financing documents and provision of assistance regarding management ;
- acquisition of shareholding interests in the capital of enterprises.

The Funds held by OPEB thereby enabling it take up shares were the subventions received from the Netherlands and the Federal Germany. The acquisition of shareholding interests is brought about through effective taking-up of shares in the enterprises to be established or to be developed, either by funding the equipment, working capital of the artisanal SMEs whose size does not permit them to have access to bank credit. However, the participating fund had some limits :

- financial assistance for purchase of equipment or improvement of the working capital did not exceed 5 million ;
- the modalities for acquisition of shareholding interests in enterprises are as follows :

Five million in the case of the Small-sized enterprises ;

Ten million in the case of the medium-sized enterprises.

Besides, the OPEB acted as intermediary between the enterprises and the local commercial banks for obtention of credit.

When it came to constituting its own capital, OPEB used to contribute to the tune of :

- 75 per cent in the case of small-sized enterprise ;
- 49 per cent in the case of medium-sized enterprises.

It should be noted that the said acquisition of shareholding interests was provisional because as time went on, OPEB had to hand over its shares to the nationals. Unfortunately, it was difficult to find shareholders, thus making it impossible for OPEB to hand over such shares.

Finally as OPEB was facing a lot of problems, it closed down in May 1986.

1.1.2. The Guarantee Fund

Established in 1969 and administered by the National Development Bank, the Fund is meant to guarantee credits granted by the banks to nationals or Burkinabe enterprises in which the nationals hold, at least, 50 per cent of the shares.

The Fund, by its objectives was to be an appreciable instrument for promotion of SME. However, a number of difficulties has limited the positive action that could be expected of it for the following reasons :

- The Investment Programme and the amount of the Working capital of the applicants should not exceed FCFA 23 and FCFA 15 million respectively ;
- The Guarantee Fund cannot exceed 80 per cent of the total amount of loans granted, the difference should necessarily constitute the personnel contribution of the promoter ;
- the Guarantee given by the Fund attract a guarantee commission of 0.25 per cent, hence an increase in the interest rate.

It is evident from the analysis that the different factors referred to above contribute to the reduction of the number of applicants for the services of the Fund. Thus, the Fund has, since 1969, guaranteed a total of 147 applications estimated at about FCFA 276 million.

Currently, the Fund has no further financing opportunities due to some recovery problems.

The FARF (Fund for Support of Women's Remunerative Activities)

The Fund was set up in September 1990 and went into operation in May 1991. It has an endowment from the Government to the tune of FCFA 300 million as well as assistance from UNDP (technical assistance and assistance in the form of rolling stock). The target group dealt with by the Fund is constituted of 90 per cent women from the informal sector.

The amount of the assistance varies from FCFA 5,000 to FCFA 100,000 per operation. It is up to a maximum of FCFA 5,000,000 when it involves a grouping.

A simple financing mechanism is set up for the operation of the Fund :

The loan is granted to women constituted into solidarity groups of 3 to 6 persons ; repayment is effected on weekly basis and the duration of the loan is from 6 months to a maximum of one year. The guarantees required by the Fund are :

- joint and several guarantee by the group ;
- contribution to a Guarantee Fund to the tune of 1 per cent of the loan amount.

Currently, the Fund is becoming interested in customers outside the informal sector. The fund has, therefore, started a trial operation. It will involve financing about ten operations initiated by young women graduates with proposed enterprises.

The operation started in November 1992, with the holding of a Seminar for training of women from the afore-mentioned target group. It will end up with the selection of ten projects for financing.

The fund is also interested in assisting women of the informal sector to turn to small-scale enterprises. The Fund has, within 16 months of activity, granted 1,600 individual loans and 16 loans to the groupings. The demand is great and the rate of repayment is at a maximum of 90 per cent.

1.1.4. Employment Fund

It is a Fund established in 1991 and it finances the micro-projects of the youth, be they graduates or not. It aims at controlling unemployment through creation of permanent employments.

The Fund has a Government endowment of about FCFA 300 million. The mode of financing is still not determined, however, the officials envisage granting resources which vary between FCFA 500,000 and FCFA 5 million, while the other contributions are effected in the form of guarantee. The Fund intends starting its activities in early 1993.

1.1.5. Financing of the SMEs under the framework of the project for development of the ten medium-sized towns.

It is a programme for development of ten medium-sized towns where the SME has an important role to play. The investment envisaged for this programme is to the tune of CFA 15 billion about 29 per cent of which (FCFA 403 billion) will be devoted to the development of the SME-SMI. The FCFA 4.3 billion is made up of 47 per cent of credits, 28 per cent of own funds and 25 per cent of donations from cooperation organisations, NGOs and others.

On the whole, about 342 projects are proposed 204 (60 per cent) of which are devoted to the SME-SMI.

The SMEs are financed through granting of credits subsidized below the rate of interest existing on the market.

The programme took off in October 1992.

1.2. Financing of SMEs by the development partners.

It is essentially direct financing effected by certain partners, it will not include financing of the SMEs by community organisations such as the FOSIDEC, FAGACE and the NGOs, etc.

1.2.1. Le Programme d'Aide aux Initiatives Productrices de Base (Programme of Aid to the Basic Productive Initiatives).

The French Development Fund (ex CCCE), under the framework of the

cooperation with Burkina Faso, established in the 1980s, an aid programme called "Aide aux Initiatives Productrices de base" (Aid to the Basic Productive Initiatives) ; the Programme caters, inter alia, for SMEs which have already undertaken an activity enabling them to finance themselves and repay the loan granted by the French Development Fund. The maximum loan per operation is FCFA 20 million at a rate of interest ranging from 0 to 12 per cent per year for a duration of 5 years, with possibilities for 2 years grace depending on the circumstances. It takes less than three months to reply to loan applications.

The programme intervenes, especially, in the agricultural sector and loans are granted to enterprises which were dissatisfied with the commercial banks.

The programme also has a support fund which finances training as well as market surveys of the SMEs. The total financing is currently 250 million for 25 enterprises.

1.2.2. The project for establishment of the Burkinabe Company for New Nutrition.

The FAC is currently undertaking a project for development of a SME in partnership with a French company. The Société Nutriset and the Grands Moulins du Burkina (GMB) have entered into a partnership agreement by establishing the SBAN (Société Burkinabé d'Alimentation Nouvelle), a company with a capital of FCFA 10 million shared as follows : Nutriset 25 per cent, GMB 25 per cent and Burkinabe private individuals/companies 50 per cent.

1.2.3. The Canadian Project

The CIDA (The Canadian International Development Agency) intends establishing a micro-enterprises project in Ouagadougou. The project will be executed by a Canadian organisation "The Société Internationale des Jardins (SIDJ). This company is currently managing a support programme

of the popular funds in Burkina (Ouaga, Djibo Yatenga).

The objective of the project is to stimulate financing of micro-enterprises projects already established by the Popular Funds. To this end, the SDID envisages establishing viable projects by working closely with the micro-enterprises promoters - projects which will, later, be proposed to the funds for financing (to the tune of FCFA 10 million). To assist the funds with little experience in enterprise financing, the project will establish a guarantee fund to cover the losses and safeguard the savings funds.

The first phase of project financing will last for three (3) years and will involve an amount of 4.8 million Canadian dollars.

The guarantee fund will involve an amount to 330,000 Canadian dollars.

1.2.4. The EDF Project

The EDF has conducted the feasibility study of a project for development of SMEs-SMIs in Burkina Faso.

The project aims at creating entrepreneurs who implement their proposed enterprise. The general objective will, therefore, be the creation of an entrepreneurial dynamics which allows for the emergence of a network of enterprises with important induced effects (employment, income, value added...). The project will initially last for three (3) years with the following objectives :

- establishment of 400 enterprises ;
- creation of 2,200 direct management opportunities.

The total amount of loans that shall be granted is FCFA 660,000,000. In implementing the project the following three (3) specific and integrated structures need to be created. They are :

- the initiative Fund which is a specific credit institution of a banking nature for funding enterprises. Its function is to mobilize available resources to support and promote SMEs-SMIs ;
- the initiative Agency which plays the role of technical assistance to private initiative and intermediary between the Fund and the entrepreneur.
- Guarantee Fund for protecting credits granted.

II - FINANCING OF SMEs BY THE BANK SYSTEM

Burkina Faso forms part of a monetary zone where monetary policy guidelines are defined by the UMOA (West African Monetary Union) ; each country has to adapt itself considering its economic and social situation.

The role of the Bank system is all the more important because it is in contact with both the decision-making bodies (supervising Authorities) and the different economic operators. It is, therefore, conversant with the general and sectoral objectives defined by the authorities and should be in a position to ensure their implementation for an appropriate credit policy.

In Burkina Faso, the financing of the SMEs by the bank system is most important because according to the Association des Professionnels des Banques et Etablissements Financiers (Association of Banks Officials and Financial institutions), 90 per cent of the financial resources of the enterprises are in the form of bank credits.

Eight banks constitute the bank system in Burkina.

2.1. Presentation of Burkina's banks

2.1.1. Union Revolutionnaire de Banques (UREBA)

It was established in 1984 as public company of mixed economy with a capital of FCFA 2 billion shared as follows :

- Burkina Government and its branches : 51 per cent
- National corporations : 49 per cent

It finances provincial operations, notably, in the industrial, agricultural, cultural areas and provincial infrastructure.

The resources of UREBA come from national sources. They increased from 3 billion in 1985 to 7 billion in 1988, representing an increase of 180 per cent.

As regards disbursements of the resources (credits to the economy), there was a galloping progression, increasing from 116 million at the beginning of the period to 2.5 billion at the end of the period.

2.1.2. Banque pour le Financement du Commerce et des Investissements (BFCI)

Established in 1973 as a public institution with a specific character, the BFCI was transformed into a bank in 1984.

Its capital which is wholly held by the Government is 3.4 billion. Its objectives are as follows :

- centralization and management of resources both at the national and international levels with a view to investing such resources in development activities ;
- acquisition of shareholding interests in the registered capital of public and private enterprises ;
- granting of approvals in favour of these very enterprises ;
- realization of operations or management of funds on behalf of the Government.

The resources of BFCI are essentially national. From FCFA 11.8 billion as at the end of the 1984-1985 Financial year, the resources increased to FCFA 15 billion, representing an increase of 21.5 per cent.

2.1.3. Caisse Autonome d'Investissement (CAI)

Established in 1984 as a public institution of industrial and commercial character, CAI has a capital of CFA 100 Million. It has the peculiarity of being a mutual insurance company of the economic operators.

The resources come from the annual contributions of enterprises with a turnover of more than or equal to FCFA 5,000,000. Such contributions remain the property of the enterprises which can call for reimbursement whenever they want to embark in an investment approved by the Caisse. As regards disbursements of the resources, apart from the reimbursements, the Caisse grants approvals in favour of its members, payments of interests and especially long and medium-term credits. The Caisse finances investments only.

The total repayments made between 1986 and 1989 in respect of Loans authorized by the Caisse amounted to about FCFA 6.9 Million. As concerns other interventions, they amounted to FCFA 70,000,000 of shareholding interests and FCFA 29,000,000 in terms of interests paid.

Under the framework of SAP, the CAI, UREBA and BFCI should be merged to form a single bank.

2.1.4. Banque Internationale du Burkina (BIB)

Established in 1974 as a public institution, it currently has a capital of FCFA 1630 million shared as follows :

- Government and its branches : 50 per cent ;
- The Burkinabe private individuals : 10 per cent ;
- Foreigners : 40 per cent.

Its main objective is to carry out all the financial, commercial, industrial, agricultural, movable and immovable operations which are directly connected with the exercise of the banking profession.

2.1.5. Banque Internationale pour le Commerce, l'Industrie et l'Agriculture du Burkina (BICIA-B)

Established in 1973 as a public institution, the BICIAB's objectives are :

- to carry out, in Burkina Faso or in any other country, either on behalf of a third party or in partnership, all bank and discount operations and operations regarding credit advance and commission ;

- embark on or participate in all floating, subscription and tender exercises, in all endowment operations or acquisition of shareholding interests in the existing companies or those to be established and more generally in all financial, commercial, movable or immovable operations or enterprises without exception, likely to affect trade, industry, agriculture. The bank can participate in them or be the direct or indirect consequence of such exercises.

It has a capital of FCFA 2,500 million shared as follows :

- Burkina Government : 25 per cent ;
- Private individuals (companies : 75 per cent).

2.1.6. Caisse Nationale de Crédit Agricole (CNCA)

Set up in 1979 as a public institution of mixed economy, it has a capital of FCFA 1.3. million shared as follows :

- national side : 55 per cent
- foreign side : 45 per cent.

Its objective is to provide technical and financial assistance for the realization of any project capable of promoting rural development in Burkina, notably, in agricultural, animal and forestry production, in fisheries, cottage industries, agro-industry and the marketing of products emanating from such activities.

2.1.7. La Banque Arabe Lybienne pour le Commerce et le Développement (BALIB)

It was established in 1988 with a capital of FCFA 800 million shared as follows :

- Burkina Government : 50 per cent ;
- Libyan Government : 50 per cent.

The mission of BALIB is to participate in operations for economic and commercial development both within and outside Burkina.

The overall resources stood at FCFA 3136 million between September 1989 and February 1990. Disbursements accounted for FCFA 1029 million for the same period.

2.2.2. La Société Burkinabé de Crédit Automobile (SOBCA)

Set up in 1971, as a Financial institution, it currently has a capital of FCFA 250 million shared as follows :

- Burkina Government : 29.4 per cent
- Private Burkinabe individuals/companies : 39.05 per cent
- Private foreign individuals/companies : 21.52 per cent.

Its role is to carry out any financing and credit operations capable of facilitating time payment of any machinery, tools and installation, automobile, commercial, agricultural, ... equipment.

2.3. Appraisal of the Bank's resources and their disbursements

The situation of the resources and of the bank system which is composed of eight (8) banks is as follows (in million FCFA) :

Resources (Deposits and loans)

- at end of more than 2 years	3966.4
- at end of less than 2 years	91553.8
- at sight	<u>57632.4</u>
Total	153,132.6

Disbursements

- Medium and long-term credits	32,896.9
- Short-term credits	<u>65,412.9</u>
Total	98,309.8

It can be observed from the analysis :

- that the essential part of the resources of the banks is constituted by short-term (less than 2 years) and sight deposits amounting to FCFA 149,166.2 million accounting for 97.41 per cent of the overall resources.

Such a resource structure does not make it possible for the banks to finance a considerable volume of productive investments which are, by nature, only profitable in the medium and long term.

- that the medium and long-term credits, that is, those utilized to finance investments account for 32,896.9 or 33.46 per cent of the total amount of credits granted by the banks. In contrast, the essential part of the banks' disbursements is in the form of short-term credits, accounting for 65.54 per cent ; this obviously is not in keeping with the exigences of economic growth of a country like Burkina Faso.

- that the resources possessed by the Burkinabe banks, are essentially national. This means that the Burkinabe banks possess a considerable share of the national savings which can be utilized to build a stable and self-sustained national economy. The banks, therefore, deserve a special attention because the development of a country depends inter alia on the way it utilizes its national savings.

- The Burkinabe banks have preference for the trade and Services sector which is quite vaste. This sector is more active, money circulates more rapidly in the sector, therefore capital is also constituted at the same rate.

CONCLUSION

In spite of the importance of the SMEs in the economic and social development of Burkina Faso, their evolution seems to be delayed by the financing problem.

The network of financing accessible to the SMEs in Burkina is quantitatively and qualitatively inadequate. Some of the attempts made by the Government to finance the SMEs, have failed.

The country is very badly covered by the banks and the financial institutions. In addition to such shortcomings, is the fact that the quality of the banks does not permit easy access to the SMEs.

Besides, the short-term credits tend to exceed the long-term ones.

Furthermore, since Burkina's adoption of the Structural Adjustment Programme (SAP) a lot of efforts have been made by the Government and Funding Agencies to finance the SMEs and accord them their rightful place in the economic and social development of the country.

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