7 | MALAISE IN THE SENEGALESE MICROFINANCE LANDSCAPE

Eveline Baumann, Abdoulaye Fall and Cécile Godfroid

In contrast to the other countries discussed in this volume, Senegal, which in the 1980s was a pioneer of microfinance in western Africa, has not at first glance been experiencing a microfinance crisis. There have been no signs, such as a dramatic loan portfolio slowdown. On the contrary, MFI portfolios have been growing at a steady, albeit slower pace. Deposits have continued their upward trend, and from 1998 to 2013 MFI client numbers increased more than tenfold, at an annual rate of almost 17 per cent. In 2013, 11 per cent of the value added by the financial sector came from MFIs, with a penetration ratio as high as 15.2 per cent.

But the true nature of the microfinance landscape remains ambiguous. Several ratios, including portfolios at risk, give grounds for potential concern. Levels of concentration are also high. Three of the MFIs account for four out of five members, and two-thirds of the overall loan portfolio. Current legislation, which pushes strongly for commercialization and the key principles of financial profitability, competition and regulation (Christen 2001), may be fostering concentration insofar as it seeks to set up a unique financial landscape, which also includes MFIs. It is also a call for greater professional norms, which only MFIs benefiting from economies of scale are able to achieve. This can mean that small institutions focused on social welfare become crowded out. At the same time, the distinction between 'traditional' banks and MFIs is becoming blurred: the latter are implicitly encouraged to concentrate on supposedly solvent clients, such as medium-sized companies and wage earners, encroaching on the territory of 'traditional' banks and fostering competition. Finally, there has been an overall lack of transparency and recurrent political interference, falling short on the transparency and availability of information required in the market economy.

This situation has fed into a malaise that has been voiced not only by independent experts, but also, although only in private, by MFI staff members, senior officials and MFI clients and non-clients.[1] They are all concerned by what can be called the current mission drift of microfinance.

Before looking at the available data and their limitations, we will discuss the landscape of microfinance in Senegal and its institutional framework. We

will then consider the outcome and challenges of the in-depth legal reform that was carried out in the late 2000s. We will finally demonstrate how fierce competition and legislative shortcomings can handicap financial inclusion.

The landscape of microfinance in Senegal

High concentration in the microfinance arena goes back to the very beginnings of financial inclusion in Senegal, when international donors actively backed the movement. While microfinance initially focused on the rural population, who were seen as being in need of 'development' tools, its focus progressively shifted to towns, which helped offset losses from less profitable rural areas. Little by little, the social welfare focus gave way to an explicitly market-centred approach, which legislation has also spurred on.

Rural versus urban MFIs The Senegalese microfinance landscape was affected from the outset by recurrent environmental disasters and high urban–rural migration, as well as by massive lay-offs in the public and semi-public sector in the 1980s and early 1990s in the wake of radical reforms that were labelled as structural adjustment (Doligez et al. 2012; Ouedraogo and Gentil 2008). Unemployment was high, insofar as this can have any meaning in a context where seven out of eight people with an occupation were self-employed, apprentices or family workers (Senegal 2014e: 28), and where jobseekers were neither systematically registered nor in receipt of unemployment benefits. Poverty reduction was on the agenda of international development agencies, and the time seemed ripe for encouraging private initiatives through community-based access to saving and loan products. At a time when development banks had all closed down and usury was widespread, microfinance was thought to be an ideal tool. Cooperative governance was seen as the 'one best way' to manage organizations.

But there was a flaw, insofar as it was taken for granted that there would be (increasing) demand for microloans, and at the same time saving products. Not enough attention was meanwhile paid to existing informal financial tools, where in-kind and cash saving and credit were closely intertwined. These tools were a response not only to concerns for solidarity and reciprocity among family members and friends, but also for protection between people of different social statuses. In Senegal, these are at the heart of strategies for managing risk. They mostly involve women, and considerable flows of money and products such as cloth.[2] There are also more anonymous means of obtaining credit, which are strongly historically embedded. Traders and rich farmers often provide cereals, the same amount of which has to be returned after the harvest, when prices are usually half as high as during the hunger gap. In towns, people in need of cash may turn to cash loan-sharks-cum-middlemen, the so-called *bukkimen*, who sell products on credit, which are immediately sold on, often at a 30–40 per cent lower price than what was initially paid.[3] Given this wide range of tools for

coping with risk, it comes as no surprise that people see microloans as just one means among many for helping make ends meet.

Senegalese decision-makers and senior civil servants were active in setting up the institutional framework for microfinancial activities, with the help of bi- and multilateral donors. Three major microfinance institutions came to the fore over a short timescale, each with their own sponsors. ACEP (Alliance de Crédit et d'Epargne pour la Production) was set up in 1986, in the groundnut regions of Kaolack and Fatick, with the support of USAID. Crédit Mutuel du Sénégal, too, started out in the groundnut region, in 1988, with its first headquarters in Kaolack; it was sponsored by the Frenh cooperation service. In contrast, PAMECAS (Partenariat pour la Mobilisation de l'Epargne et le Crédit), backed by the Canadian International Development Agency, focused from its very outset in 1995 on the suburban population of the capital in Pikine and Rufisque. Its management backed MFIs which seemed to have quick growth prospects and which preferably were in regions not covered by 'formal' financial institutions (Ouedraogo and Gentil 2008: 167).

Sponsors' ambitions were twofold: they were keen to boost their own model of microfinance, and to increase their market share. This contributed to the dominant position of the 'big three', alongside less powerful, small and medium-sized institutions that made a local, but nevertheless significant, contribution to financial inclusion.

But prioritizing rural areas turned out to be economically unsustainable, because the primary sector is extremely risky, with one year out of three experiencing drought, locust invasions or other natural hazards. For this reason, ACEP and Crédit Mutuel du Sénégal increasingly turned to an urban clientele, transferring their headquarters to Dakar. Less affluent service points for rural clientele were thus backed up by urban service points that tended to do better. By contrast, PAMECAS managed to expand its activities into rural areas as the very result of its urban origins (Ouedraogo and Gentil 2008: 253–4). This offsetting formula resulting from 'extensive growth' allowed the three main actors to establish their dominance. High levels of subsidies from various donors facilitated the recruitment of skilled human resources, but also computerization as a means of better control, and boosted competitiveness. As early as 1998, Crédit Mutuel du Sénégal, ACEP and PAMECAS could rely on a strong network of service points, which accounted for 123 out of the 233 credit points across the country (BCEAO and BIT 2000). Two out of three Senegalese microfinance depositors or borrowers are clients of the 'big three'; their powerful position has not flagged over the years.

The institutional framework: from the specific nature of microfinance to a single financial landscape Senegal was the first West African country to adopt a specific law on microfinance (PARMEC) (Lelart 1996). This framework gradually came into force across all the countries of the West African Economic

and Monetary Union (WAEMU). From the very outset, the specific features of the region's microfinance sector were cooperative governance and high risk pooling, with members' savings serving as essential resources for loan distribution. The underlying idea was for this business model to foster members' 'sense of ownership' of 'their' MFI and thus to help reduce fraud.

As this legislation was supposed to encourage the development of cooperatives, not only did it regulate fully fledged MFIs, but it also provided for a specific status for pre-cooperatives, the so-called GECs (*Groupements d'épargne et de crédit*) which were generally coupled to development projects. In 1996, they had 8 per cent of the microfinance loan portfolio and 10 per cent of the country's microfinance clients, four in five being women, a percentage three times higher than that of women's participation in fully fledged MFIs (BCEAO and BIT 1998). Both types of organization were supervised by the Cellule d'Assistance Technique aux Caisses populaires d'Epargne et de Crédit (AT-CPEC), which was accountable to the minister of economy and finances. Resources were, however, scarce. Under the Abdoulaye Wade regime (2000–12), a specific Ministry for Women's Affairs and Microfinance was set up. The political consequences were twofold. Firstly, the new ministry shadowed the AT-CPEC and limited the dominant position of the Ministry of Economy and Finances. Secondly, it became key in the exploitation of microfinance and gender-related issues for political ends. By contrast, there has been a long tradition of strong links between women's associations and the political sphere in Senegal. As will be discussed in more detail below, this trend was more pronounced during Abdoulaye Wade's presidency, when female development project leaders were instrumentalized in order to mobilize the supposedly malleable electorate of (rural) women (Sall 2012, 2013).

Little by little, demand for microloans outpaced deposit rates, spurring on the search for additional sources. Some MFIs created their own bank, the BIMAO (Banque des institutions mutualistes d'Afrique de l'Ouest), which was particularly funded by the Crédit Mutuel du Sénégal. Other organizations faced growing pressure to move towards commercial banking. MFIs had no choice but to grow quickly to attract cross-border credit lines. But this entailed manifold risks: prudential ratios were neglected, while the supervision and training of beneficiaries became more and more haphazard. And while these factors inevitably lowered loan portfolio quality, the public MFI supervisory board (Direction de la Réglementation et de la Surveillance des Systèmes Financiers Décentralisés, DRS-SFD) experienced a lack of resources that hastened the downward spiral. The national authorities' verdict was pretty alarming, criticizing the MFIs for their 'weak managerial capacity', 'nebulous practices', 'absence of internal control', etc. (Sénégal 2010: 2). Many pre-cooperatives equally stood out for their poor management practices (Fall 2012: 32). There were over four hundred of them in 2003 and they

were mostly based in remote areas, addressing the less affluent segments of Senegalese society. Beyond the difficulties the GECs encountered, to which the public at large were oblivious, there were flagrant further shortcomings, with tremendous irregularities festering at Crédit Mutuel du Sénégal, the most powerful MFI. A first warning sign of these irregularities became apparent in 2008, when an internal audit revealed fraudulent investment practices in real estate involving leading staff members.[4] The auditors were dismissed, but the wrongdoers were not prosecuted for several years, until further irregularities were disclosed.

In the second half of the 2000s, there was a clear and urgent need for in-depth reforms, which culminated in a new 2008 law on microfinance (SOS Faim 2015). Its main objectives were as follows:

- ensuring that most of the Senegalese population had access to financial services;
- consolidating and professionalizing the microfinance industry;
- giving high priority to prudential ratios, internal control mechanisms and the audit of the consolidated financial statements;
- protecting consumers' interests.

While the microfinance landscape is now open to for-profit MFIs such as limited liability companies, only licensed cooperatives are authorized. As such, institutionally isolated GECs have had no choice but to join existing MFIs or to disappear. As a consequence, almost 450 organizations closed down (Sénégal 2010, 2013a). The Central Bank has been more actively involved in supervision and licensing than ever before. To meet its requirements, a highly sophisticated information system to cover the most powerful MFIs was set up. These measures sought to bridge the gap between microfinance and the banking sector (Fall 2012; Holmes and Ndambu 2011) and to integrate MFIs into the overall financial landscape.

Undoubtedly, this new legislation has encouraged competition between financial organizations, especially at the high and the low end of the MFI scale. But the professional norms required – procedure manuals, computerization, geographic information systems, etc. – need infrastructure and training investment, as well as adequate salaries, which small organizations cannot afford, resulting in their high turnover.

Basic data on the microfinance industry in Senegal

Remarkable progress has been made in the overall availability of data, but significant gaps remain insofar as not all microfinance institutions have adopted a transparent attitude, be this towards the regulation authorities or international benchmarking companies. Unsurprisingly, this tends to give a mixed picture as to MFIs' viability.

Official data and insider information At the end of the first quarter of 2014, the penetration ratio of microfinance services was 15.5 per cent[5] (Sénégal 2014b: 5). By that time, Senegalese MFIs had approximately two million clients, 92 per cent of whom were physical – as opposed to juridical – persons (ibid.: 6). Forty-three per cent were women, which ratio has barely changed over the past ten years, and which is four points higher than twenty years ago, when data on female membership was gathered for the first time (BCEAO and BIT 1997). MFI clients are first and foremost savers: only one in five is also a credit taker (Sénégal 2014c: 3).

The most striking feature of the microfinance landscape in Senegal is a high concentration, firstly as regards the spatial distribution of MFIs, and secondly in terms of the institutions themselves. In spatial distribution terms, the MFI penetration ratio is by far at its highest in the Dakar region (28.3 per cent in June 2013), which is twice as high as the national penetration ratio (Sénégal 2013b: 7). While one out of five Senegalese people lives in the Dakar region, approximately 50 per cent of all MFI members are concentrated there. It is roughly the same proportion for loan portfolios and savings. In the Dakar region, 85 per cent of the savings and loan portfolios are in the capital. The penetration rate is lowest in regions such as Matam, Kolda and Fatick, which are considered to be the least affluent regions in the country (Sénégal 2013c).

As far as institutional concentration is concerned, there is a wide discrepancy between the institutions, with some powerful ones on the one hand, and a host of small MFIs on the other. Over the years, the 'big three' have successfully consolidated their leading position. Currently, four out of five microfinance members and three out of five active borrowers are clients of Crédit Mutuel du Sénégal, ACEP or PAMECAS. These three actors make up 78 per cent of total MFI assets, 82 per cent of deposits and 66 per cent of loan portfolios (Sénégal 2013b: 4). The Crédit Mutuel du Sénégal has been a particularly remarkable case. Between 2002 and 2011, its loan portfolio registered a mean growth rate of 35 per cent annually, which is twelve points higher than the overall national level (Sénégal 2011: 6, 2013a: 4–5, 2013b: 6). Economies of scale and the aforementioned offsetting of service points have allowed the three main actors to face up to the challenges of professionalization and modernization. Crédit Mutuel du Sénégal has moreover benefited from refunding facilities thanks to BIMAO. In contrast, small and isolated institutions, mostly in rural areas, with less skilled human resources and poor processing tools at their disposal, have often faced tremendous difficulties, as the quantitative data shows. Between the two extremes of the MFI scale there are also a few highly active newcomers such as Microcred and Saint-Louis Finance. In contrast to the three main actors and the small MFIs, their legal status is not that of a cooperative, but of a limited company.

There is evidence that the Senegalese population has been adopting an increasingly loan-driven financial culture. While from 2005 to 2013 client

numbers grew at an annual pace of 14 per cent, the growth in active borrowers was three points higher (Sénégal 2014c).[6] Owing to this, and given the strict regulation governing transformation of savings into loans, cross-border funding has become unavoidable. On a national level, the mean loan size has been roughly stable since 2006, at approximately 510,000 CFA francs (XOF) (US$1,040),[7] but the mean loan amount at Crédit Mutuel du Sénégal and ACEP has been at least 50 per cent higher. But as we will see below, these mean figures can hide a great deal of disparity. The primary destination for loans is trade;[8] agriculture is financed by microloans to a far lesser extent.[9] Half of the loan portfolio is used for working capital, breaking away from microfinance's original goal of funding small farmers and providing starting capital to petty commodity producers. Calls for the creation of non-farm (self-)employment have had little tangible impact, because entrepreneurial newcomers have usually lacked collateral for seizure in the event of a loan default.

As in other countries, the trend for commercialization has gone hand in hand with the up-scaling of the best-performing MFIs, bringing them into competition with commercial banks (Seck 2009). This has come about firstly by shifting to a clientele of small and medium-sized companies, the so-called PMEs (*petites et moyennes enterprises*).[10] In 2013, more than 4,400 PMEs received 14 per cent of the loan portfolio of eighteen MFIs, with a mean loan amount of around US$18,300 (Sénégal 2014c). According to our informants, loans as high as 50 million XOF (approximately US$100,000) are commonplace, the highest being 300 million XOF (US$612,000). It may be that MFIs extend credit up to 300 million XOF because there is no clear upper limit on the loans they are allowed to grant, unlike in other countries such as Morocco. MFIs can provide loans as high as those fixed by the WAEMU bank authorities for small and medium-sized businesses, namely 300 million XOF. This practice is all the more worrying given that defaulting appears to be particularly commonplace on substantial loans. It goes without saying that only the largest MFIs have enough resources to distribute loans of this size.

Secondly, up-scaling is also at stake when wages are paid by an MFI, after having been channelled through a traditional bank. There is no official data for the country as a whole, but insiders claim that one single powerful actor can have as many as 60,000 wage earners, which is 16 per cent of the country's 370,000 workers on a permanent salary. This service is quite a profitable business. Firstly, wages are paid on a monthly basis, which helps MFIs to plan ahead in their financial operations. Secondly, for MFIs, the service generates a regular income of 3,000–5,000 XOF (US$7–10) per month. Thirdly, it may be a route to regular saving. Finally, it opens the door to secured consumption loans, which may be as high as 5 million XOF (US$10,000).

As far as operating results and compliance with prudential ratios are concerned, there have undoubtedly been some signs that the microfinance landscape is becoming increasingly insecure. The net operating income was still positive on the national level in 2011, but turned negative in 2012 (Sénégal 2012a, 2013d). In the same year, only three out of fourteen regions recorded positive operating results, as opposed to eleven out of fourteen for the previous year. Dakar was affected by the decline in both years (ibid.). A temporarily high loan rate on one signature can be noted, as well as loans distributed to MFI staff.[11] What is more, the three main actors' financial position may be troubled in that they are experiencing a marked performance decline.[12] At ACEP, for instance, the portfolio at risk greater than thirty days (PAR 30) reached 9.31 per cent in the second quarter of 2012, as opposed to 6.81 per cent in 2011, which is substantially higher than the 5 per cent generally taken as the maximum benchmark. Other than Microcred, one of the aforementioned newcomers, all the main actors have seen a remarkable drop in return on assets and equity as a result of their falling net income. This can partly be explained in terms of the substantial increase in the allocations for provision for risks and charges, as well as for other assets required by the risk-based supervision. It has also harmed the operational self-sufficiency ratio, which, in 2012, fell below the critical point of 100 per cent at PAMECAS and Crédit Mutuel du Sénégal. The latter's debt-to-equity ratio reached 18.96 in 2012, as opposed to 3.96 in 2011, showing that the MFI has only a very small safety net for absorbing losses when all of its liabilities have been repaid. Globally, more recent data has tended to confirm this trend of relatively high portfolios at risk: in June 2013, the PAR 90 of eighteen MFIs was 6.6 per cent (Sénégal 2014c: 3). All this raises doubt as to the long-term stability of the country's microfinance landscape.

Lack of informational transparency The public supervisory board (DRS-SFD) is now in a better position to collect and disseminate information to observers and microfinance professionals, thanks to its sizeable staff of eighty-two in 2013, as opposed to thirty-six in 2009, the creation of regional six offices, and robust investment in technical infrastructure. But it has issued only consolidated data, which is a serious handicap for understanding the underpinnings of the current changes. While nine out of ten microfinance clients are known to be individuals rather than associations, there is no information on who takes out credit, what their income is and whether they are employers, self-employed or wage earners. Such distinctions can be considered to be of the outmost importance, because they are key to understanding the types of loans granted and their potential contribution to 'development'.

As far as loan distribution is concerned, DRS-SFD distinguishes between administrative regions, but gives no breakdown between rural and urban zones. Information on the various economic sectors concerned is also

scarce. Firstly, there is little precise data on agriculture and the type of farms funded (such as small-scale family-owned farms, groundnut producers or agricultural enterprises exporting crops). This is in stark contrast to the authorities' commitment to promote agriculture in the *Plan Sénégal émergent*, the country's current vade mecum for economic policy (Sénégal 2014d). Here again, only mean values are given, rather than a more accurate picture of loan distributions. This is the greatest cause for concern because, as stated above, there is no specific definition for microloans, but only an upper limit on loans that can be issued to small and medium-sized companies.

The weaknesses of the data communicated by the DRS-SFD are due to MFIs' general lack of informational transparency. Insiders confirm that practices for withholding compromising information and doctoring figures to improve appearances take place in Senegal. Prudential norms concern, among other factors, the composition of the loan portfolio, as expressed by the percentage of dubious loans (portfolio at risk at thirty or ninety days), of loans on one signature or those distributed to MFI staff. Official targets can be met by subterfuge and dubious loans rescheduled. This means that they are considered as new loans, which helps to keep the portfolio at risk at ninety days under the 3 per cent limit. Loans on one signature or those provided to MFI staff are supposed to be kept under the threshold of 10 per cent of the loan portfolio. If ever the loans to be distributed come close to this limit, frontmen or partner organizations may play a crucial role. While the latter may purchase the loans, the former may be the official beneficiary. These 'informal' techniques are well known among microfinance professionals. They make the figures look better and may explain, at least to a certain extent, the tremendous variations in some ratios from one quarter to another.

Although transparency is supposed to be an intrinsic value in microfinance, some MFIs have been unwilling to share the most basic of data, seemingly viewing their activity reports as confidential documents. Websites – even those of market leaders – give only poor information, and are only sporadically updated.[13] This attitude contrasts to the commercial banks' approach.

A further issue is MFIs' reports to Mix market, one of the data hubs for microfinance institutions. Although they are not obligated to make a report, MFIs' practices here reflect their attitudes to transparency. A substantial number of Senegalese MFIs publish their reports with significant delays, and the information given is becoming increasingly incomplete. This is all the more worrying because it concerns not only the small institutions, but also the main actors. For instance, the most recent data available on the Crédit Mutuel du Sénégal on borrower and depositor numbers dates back to 2011. PAMECAS has published no data on its portfolio at risk and write-off ratio since 2009. In a break from previous years, none of the three main actors submitted their risk coverage ratios for 2012.

Non-compliance with the 'rules of the game' is thus common. It comes as no surprise that despite the 2008 law intended to restore the soundness of the microfinance landscape, massive irregularities still occur. Their consequences can be particularly dramatic when market leaders are involved. This was recently the case for CMS and PAMECAS. After the initial alarm signals of 2008, further irregularities were revealed at CMS in 2012.[14] These included fraudulent management and investment practices, but also the creation of financial vehicle corporations and leaders' failure to comply with ministry recommendations. Finally, the managing director and leading staff members were replaced. At PAMECAS, irregularities were revealed in late 2014, leading to the dissolution of the executive management bodies.[15] In both cases, given their highly explosive character, official information was scarce. This also concerns potential legal actions against the wrongdoers.[16] To a certain extent, lack of transparency helped to prevent an open crisis in the sector.

Given this situation, one could assume that at least some managers are looking to hide the apparently unfavourable situation, as can also be surmised from the following statement from one of them in February 2013: 'There is a deterioration of the portfolio, which is not linked to a cyclical phenomenon, but to the very structure.' But as long as there is no credit bureau in Senegal, it may be difficult to re-ascertain portfolio soundness. To date, stakeholders including the Central Bank, the organization of MFI professionals (AP-SFD) and the two ministries in charge of microfinance have been unable to reach an agreement over the creation of a credit bureau. Diverging approaches and interests are at work, impeding substantial progress.

Growing competition and challenges

Microfinance's growing commercialization, the highly competitive financial landscape and risky practices developed by MFI managers have harmed Senegalese microfinance and led to malaise.[17] Not only have stakeholders such as microfinance professionals, senior civil servants and clients evoked this, but so have outside observers. Among other factors, this malaise appears to be related to the widening gaps between the high professional norms and everyday practices called for, the manipulation of financial tools for political aims and, finally, to the trend of downscaling commercial banks.

Squaring the circle: financial profitability and social embeddedness Ever since its beginnings in the late 1980s and early 1990s, microfinance in Senegal has been through broad changes, not only as regards membership, resources and distribution of loans, but first and foremost in terms of its formal rules, which are now meant to adhere to those of the market economy. While microfinance was at first roughly assimilated into the development sphere, it can now be viewed as a sub-field of finance, with a habitus adapted to the market economy. One of our interviewees, the director of a leading Senegalese

MFI, put it this way: 'I'm a banker!' Three decades ago, his predecessor would probably have said: 'I'm a development worker!' in order to highlight his commitment to social welfare. The increasingly high educational level of MFI staff members has facilitated this change. Credit officers recruited in 2014 must have a university degree, whereas in the 1990s secondary education was sufficient. The growing supply of relatively well-trained graduates[18] and the profusion of microfinance training have fostered these transformations of the workplace. MFI staff are put under a lot of pressure over targets for membership growth, loans per loan officer, PAR ratios, efficient recovery, etc. They are supposed to prioritize economic efficiency over social welfare. Their commitment to their employer's values is honoured by bonuses. MFI staff members' attitudes towards their clients contribute to eroding the embeddedness of economic relations in the local social matrix, which is one of the characteristics of modernity.

In society as a whole rather than microfinance as a specific field, norms have been changing at a somewhat slower pace over the past decades, from a material point of view, but also with respect to the formal norms and informal rules of social life (Baumann 2003). Although quite an affluent urban upper middle class has emerged, the living and working conditions of the bulk of society have seen only limited change. Those who make a living through self-employment, petty commodity production and small-scale trade face tremendous hardship. Carpenters and tailors are stymied by electricity supply failure, as they were in the 1980s. Organizational shortcomings have forced farmers to cope with irregular input provision and insufficient storage and transportation facilities. Petty trading has change dramatically, with competitive Chinese traders now based in Dakar, where living conditions remain poor. Public distribution mechanisms to compensate for volatile incomes and expenditure are as good as inexistent. It therefore comes as no surprise that small entrepreneurs are spreading their risks by diversifying not only their sources of income, but also their financial tools. As discussed above, microcredit is just one means among many for them to meet their professional and personal obligations. Indeed, in the event of distress over their working capital or consumption needs, people may use their in-kind or in-cash savings, obtain informal loans from friends or acquaintances, make an arrangement with a ROSCA, or turn to a microfinance organization. In other words, they do not necessarily distinguish between the economic andr social nature of motivations and remedies. This means that cross-indebtedness is commonplace, which can either facilitate or handicap MFI loan repayments, depending on how commitments to microfinance organizations and personal connections are prioritized.

To date, the various training workshops organized to 'teach the poor how to spend their money' (Guérin 2012) have not always been very helpful when it comes to bridging the gap between high MFI professional standards and what has been labelled a lax attitude to repayment. Low levels of formal

education are undoubtedly a real challenge in Senegal today,[19] but are not necessarily a reason for bad financial resource management.

Blurring the boundary between financial institutions and political tools The embeddedness of financial tools in the social and political context of Senegal today is also at stake when it comes to public development projects to distribute loans. There is often a high degree of interference between the economic goals of job creation through loans, and the political goals of redistribution and gaining voters' support, which can have a spillover effect on microcredit.

Delineating microfinance as a domain is of utmost importance, in terms of the distinctions between microfinance organizations and development projects. The former have precise obligations not only towards their clients, whose deposits are partially converted into loans, but also towards their donors; financial profitability is the key norm. By contrast, development projects generally draw on public funds and grants and are above all tools used by political parties in order to enhance redistribution … and gain votes. Senegal has a long history of development projects based on funding facilities. *Opération maîtrisards*, which was launched in the early 1980s, was undoubtedly one of the most spectacular of these schemes (Baumann 2015). It was created to fund graduates, mostly economists, to become 'a new race of entrepreneurs'. The creation of a single job cost as much as US$40,000 and not one of the funded neo-entrepreneurs managed to honour their financial commitments. While the government was unable to recover the outstanding loans, the defaults were not penalized. This set a detrimental precedent for the subsequent loan-based development programmes that were launched.

Over time, unemployment increasingly became a serious concern for decision-makers. Pressure, particularly in the capital's working-class suburbs, regularly spilled over into riots, finally leading to Abdoulaye Wade's electoral victory in 2000. The high-water mark of job creation initiatives prioritizing loan distributions was undoubtedly the Wade period, when institutions such as the Agence Nationale pour l'Emploi des Jeunes and the Fonds National pour la Promotion de la Jeunesse frequently had overlapping functions. These are just two of the various organizations which had an ambiguous legal status, paralleling ministries, and fostered subsidy-seeking attitudes among supporters of the regime. As a rule, the funding offered not only lacked serious planning, but also ex-post evaluation. The Senegalese Court of Auditors' reports are clear as to this: none of the organizations was in a position to issue activity reports; none could indicate who had been the beneficiaries of the loans, nor what they had been used for, nor their recovery rates (Sénégal 2007).

What is more, political interference was commonplace throughout the presidency of Abdoulaye Wade. As an example, several of our MFI interviewees mentioned that, when receiving public credit lines, staff members

were explicitly asked to show favouritism to particular clients known to be close to the regime. Instrumentalizing both women[20] and young people was a well-known strategy of the Wade regime, especially in the run-up to the 2009 regional elections, when MFIs were set up on a massive scale as a means of political recruitment. There were close links between some MFIs and political elites, opening the door to high levels of permissiveness, and the avoidance of disciplinary sanctions in the event of non-repayment.

Generally speaking, during the Wade period, resources were regularly hoarded by the ruling elites, while non-compliance with legislation went hand in hand with impunity. These practices' spillover effect onto microfinance was undeniable, and contributed to tremendous distortions of detriment to fair competition and the health of the sector. But notably, so far, there has been no widespread collective resistance to this in Senegal.

Traditional banks: bending the bars of the iron cage Ultimately, if we want to understand the challenges MFIs face today, it is worthwhile looking at the financial landscape in terms of a continuum that also includes traditional commercial banks. As highlighted above, there have been no development banks in Senegal since the 1980s. Commercial banks, which are increasingly transnational, face fierce competition. In their traditional field, they have drawn closer to their potential clientele, offering innovative products alongside mobile banking and plastic cards, which have played a crucial role. An example of this is how two leading banks have competed for customers in the relatively enclosed area of the Saint-Louis university campus (Ba 2009).

Commercial banks have tried hard to gain new customers from the traditional clientele of MFIs, which has gone hand in hand with the risk of MFI employees also being poached away. This strategy is the outcome of the Senegalese economy experiencing a serious slowdown, in spite of GDP per capita growth. Indeed, the biggest companies, such as ICS (Industries chimiques du Sénégal; production of phosphate fertilizers), SAR (Société africaine de raffinage; refining of hydrocarbons), Sunéor (groundnut processing) are undergoing great difficulties. Banks have been able to grow only by opening up to new, previously neglected niche markets. In Senegal, this has meant downscaling. Compared to the Côte d'Ivoire and Togo, for instance, Senegal is still poorly banked. To overcome what is an obvious handicap to the spread of the market economy, commercial banks have created service points in secondary towns and opened branches in Dakar's working-class suburbs, Pikine and Guédiawaye, targeting families receiving remittances from abroad.[21] According to preliminary estimates, remittances from abroad amounted to 14 per cent of GDP in 2013, which is three points higher than official development assistance. Ecobank, a transnational bank set up in Senegal in 1999, has exemplified this strategic targeting of remittance beneficiaries. It has thirty-six branches across the country today as opposed

to fifteen in 2007 and twenty-two the following year.[22] Not surprisingly, besides money transfer services, mobile banking, plastic cards and ATMs play a crucial role. On its website, Ecobank clearly shows its colours: 'Ecobank is committed to providing the underbanked and the unbanked poor with access to finance. We believe that prospects remain very bright for the microfinance sector, which is arguably larger than the traditional banking sector.'[23] 'Traditional' banks are thus increasingly targeting what can be called lower-middle-class consumers of financial services, who are potential MFI customers and are particularly at ease with mobile phones. High mobile phone coverage is a tremendous leverage in this regard. Indeed, in the first semester of 2014, there were just under 14.4 million registered cell phones in Senegal, which corresponds to a coverage ratio of 112 per cent.[24] The SGBS (Société générale de banques au Sénégal), the most powerful commercial bank in terms of balance sheet total, has fuelled this development by creating Manko,[25] a new concept for providing financial services to the lower middle classes in Pikine, Guédiawaye, Thiaroye and Yeumbeul. Manko allows customers to pay bills, transfer money, acquire loans and save money using their mobile phones. This mobile banking tool was inspired by the Kenyan M-Pesa scheme. Finally, a particularly proactive approach to plastic cards has also been adopted by the UBA (United Bank for Africa), a relative newcomer to the Senegalese financial market. A network of partners gives UBA clients access to 800 points, mostly MFIs, across the country. In a single month, 26,000 plastic cards were distributed as part of the pilot phase.[26]

While commercial banks have been downscaling as discussed above, MFIs have been involved in a process of upscaling. This is in line with the current legislation and its call for a unique financial sector. This can be seen for microfinance as the consequence of consolidation and a sign of maturity (Seck 2009). But it is arguable that some Senegalese MFIs are unequivocally straying from their initial objective of serving poor people in need of small amounts of money, as opposed to the more or less well-established clientele of fully fledged banks. As one of the members of the AP-SFD, the MFI professional association, put it: 'Some MFIs are quasi-banks targeting a vulnerable population.' This is a cause for concern for two reasons. On the one hand, MFI professionals do not necessarily have commercial banking competences, which might explain the high ratio of default over higher loans. On the other hand, until recently, these 'quasi-banks' benefited from the same advantageous fiscal regime as grassroots MFIs, which led to growing ambiguity over the identity of MFIs and to distortion of the (micro)financial scene.

Conclusion

Since its infancy in the late 1980s, the Senegalese microfinance industry has been through remarkable changes, as can firstly be seen in the quantitative

data, but also in the institutional environment. Today, one in two of the country's 14.5 million inhabitants has access to microfinance services, one in five of whom are active borrowers. It seems that financial inclusion is within the reach of a growing proportion of the population, even in remote areas. As for the institutional environment, tremendous reforms have been carried out in recent times, with control mechanisms being strengthened, computerization becoming widespread and the central bank having a say in the licensing of new institutions.

On initial consideration, unlike in the other countries discussed in this book, there has been no outright crisis in Senegal, in the sense of a marked discrepancy between legitimate expectations and concrete achievements. But seemingly objective criteria have certainly pointed to a decline in performance and loan portfolio quality. Our field investigations led us to the conclusion that this deterioration has been both global and local, and that it is closely related to what we can call mission drift in the Senegalese microfinance industry. The growing worldwide trend for the commercialization of MFIs and the trivialization of loans and indebtedness has also affected the Senegalese microfinance arena, driving local stakeholders to adopt an increasingly for-profit perspective. This can be seen in the most recent law on microfinance in 2008, which breaks away from the social-welfare-oriented approach that was specifically taken at the outset. It therefore comes as no surprise that local microfinance managers have been actively seeking out profitable market niches such as small and medium-sized duly registered companies on the one hand, and wage earners on the other, as a clientele offering unprecedented opportunities for consumption loans. Interest in funding small-scale agriculture, meanwhile, appears to have waned, although there is a shortage of data for this. We have argued that the high concentration of MFIs and growing competition has not only exacerbated existing imbalances in the microfinance industry, but affected the financial sector as a whole, pushing MFIs to up-scale and 'traditional' banks to down-scale by addressing the better-off clients of microfinance organizations. As a result, wage earners and duly registered companies have been made priority targets by both high-level MFIs and 'traditional' banks. New technological tools such as plastic cards and transfer services have played a key role in this process.

The fierce competition has led to a certain malaise among microfinance professionals and their clientele, undermining the stability of the sector as a whole and especially of those MFIs that are 'small enough to fail'. This malaise is nourished by the impression of a growing discrepancy between grassroots organizations and quasi-banks – those MFIs which are 'too big to fail' – political interference, rumours about the limited soundness of actors, and scandals over fraudulent practices that have been reported in the media. The changes brought about by the current market-oriented approach to microfinance have undeniably engendered self-enforcing dynamics. The increased need for cross-

border funding has brought the potential for an exacerbated market-centred approach for poorly performing MFIs to be crowded out.

It is currently difficult to forecast the future of microfinance in Senegal. MFIs might continue targeting wage earners, but there are limited numbers of them and, generally speaking, wage employment remains roughly stagnant. Given that there is no credit bureau, the rise in practices of wooing wage earners could lead to over-indebtedness, as a result forcing families to cut their most basic expenditures on, for instance, food, medical services and housing. So far, there has been no solid data on this phenomenon. Over-indebtedness appears to be taboo, at least in official circles.[27] Meanwhile, mobile banking could conceivably become a new niche, at least for the most competitive MFIs and, surely, for banks, which may increasingly rely on MFI service points. This change would mark a shift from a credit-focused approach to one based more on payment and transfer services (Beck et al. 2011), as, for instance, has been taking place in Kenya. Decision-makers favouring the integration of the financial sector may see it become reality. In this event, there may be renewed calls for what was labelled '*animation rurale*' in the 1960s and 1970s: initiatives targeted at less well-off segments of the population to encourage what was called 'development'. There certainly seems to be something of a shortfall in MFIs promotion of the social inclusion of the poor.

Notes

1 This chapter is based on written sources (comprising academic literature, doctoral theses, internship reports, official papers and data banks) and oral interviews. About eighty in-depth interviews with stakeholders from both the supply and the demand side of financial services, and members of public and private intermediation institutions, were carried out in February and March 2013, and in June and July 2014. Participant observation was focused on baptismal ceremonies and ROSCA meetings. Quantitative data was mostly accessed from official Senegalese sources and MFIs, as well as Mix market. The preliminary findings were presented in Baumann and Fall (2013a). We are highly indebted to our informants, several of whom requested to remain anonymous.

2 For instance, *tuur* brings together women of the same age group with the aim of mutual assistance; *mbootaay* helps to finance special events; *ndey dikke* is for exchanging gifts. See Bop (1996), Mottin-Sylla (1993), Ndione (1992) and Baumann and Fall (2013b).

3 *Bukkimen* were a common phenomenon during the structural adjustment period. Their numbers have declined since then, although they have not disappeared completely.

4 'Epinglé par un audit interne, le Dg du Crédit Mutuel Sénégal (CMS) licencie cinq inspecteurs', *Nettali.com*, 17 September 2008; 'Micro-Finance – Crédit Mutuel du Sénégal – Audit: Les chiffres des auditeurs, les "armes" du Dg', *nettali.com*, 19 September 2008.

5 Of the population.

6 Over the same period, the population grew at an annual rate of 2.5 per cent, as did GNI per capita (PPP in current international US dollars). Source: World Data Bank, databank.worldbank.org/.

7 Source: Mix market.

8 Forty-nine per cent in 2010, 53 per cent in 2011, 42 per cent in 2012. Source: Sénégal (2013a: 16).

9 Twenty-three per cent in 2010, 13 per cent in 2011, 10 per cent in 2012. Source: ibid. On the level of the WAEMU, only 3 per cent of the total loan portfolio held by banks and MFIs related to agriculture (BCEAO 2013: 28).

10 Senegalese legislation classifies 'PMEs' as having an annual turnover of below 5 million XOF (US$10,200) and fewer than 250 employees.

11 Source: various issues of *Situation des SFD* (the quarterly publication of the Direction de la Réglementation et de la Supervision des Systèmes Financiers Décentralisés, www.drs-sfd.gouv.sn/).

12 As one of our informants put it in February 2013, 'The crisis of CMS is far from being overcome.'

13 The most communicative MFI in Senegal is undoubtedly the above-mentioned Microcred. See www.microcred.sn.

14 Very little information about the irregularities was made available to the public, which may explain why at Crédit mutuel du Sénégal – and more recently at Pamecas – business practically continued 'as usual'. See also 'Un énorme scandale dans la microfinance: camorra mutuelle au Sénégal', *Le quotidien*, 22 March 2012, and 'Bamboula à la FC CMS. Comment le Crédit mutuel du Sénégal a été siphonné par ses dirigeants', *La Gazette*, 5 April 2012.

15 'Détournement au Pamecas: le ministre Amadou Bâ dissout tous les organes de direction', *leral.net,* 20 October 2014; 'Crise à PAMECAS: le PCA et le Directeur se lavent à grande eau et chargent la Directrice de la DRS', *dakaractu.com*, 12 November 2014.

16 Some of our informants claim that the informational quasi-blackout can be explained by the complicity between some microfinance actors and political decision-makers, particularly during the Wade regime.

17 In the sense of 'a general feeling of discomfort … or unease whose exact cause is difficult to identify'. See www.oxforddictionnaires.com.

18 Unemployment is fostered by high enrolment rates in the (partially private) tertiary education sector, and by extremely limited job creation in the so-called modern sector. For details, see Baumann (2015).

19 In Dakar, two active people out of ten have not been to French-speaking school at all, and those who were enrolled spent less than five years in class; the situation is even worse in rural areas. For details, see Baumann (2015), which draws on official data.

20 Two main actors were the Association des femmes pour la promotion de l'entrepreneuriat (AFEPES) and the Réseau africain pour le soutien à l'entrepreneuriat féminin (RASEF). See Sall (2013).

21 Thus competing with Pamecas¸ among others.

22 Besides this specific clientele, Ecobank is also targeting agricultural enterprises and development projects, among others in the Senegal river valley.

23 www.ecobank.com/microfinance.aspx, accessed October 2014.

24 Source: Autorité de régulation des télécommunications et des postes, www.artpsenegal.net/, accessed October 2014.

25 See 'Société Générale: lance Manko au Sénégal', *boursier.com*, 2 May 2013; 'Sénégal: Manko ne désemplit plus', *Le Griot*, 19 June 2013.

26 See 'Spotlight on Amie Ndiaye Sow, MD/CEO, UBA Senegal', *The Lion King* (UBA in-house publication), January–March 2014, pp. 13–22.

27 As a director of a powerful MFI put it: 'One can presume that over-indebtedness does exist, but we cannot prove it.' However, there is also one exception worthy of mention: on its website, Microcred calls for 'the prevention of overindebtedness'.

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