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**ESTABLISHMENT OF A REVOLVING LOAN FUND FOR
SMALL AND MEDIUM ENTERPRISE IN THE GAMBIA**

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DEDICATION

Dedicated to my dad, Cherif Alioune Aidara may his soul rest in perfect peace. To my mum, Mam Anta Kah and brother, Sherif Yunus Hydara, who has been very dear to me through out, and will continue to be as long as I live. You have in many ways enriched my life. Thank you for the thoughtfulness, the well wishes and the prayers. I deeply appreciate you.

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My profound gratitude goes to the entire staff of CESAG particularly the program of Banking and Finance, which offered me an admission to make my studies up to this level a reality. Finally, may I state that I am solely, accountable for any flaws that this contribution to knowledge may contain.

ABSTRACT

Small and Micro Enterprises contributes a colossal percentage to Gross Domestic Product (GDP) in ensuring economic growth, employment, income stability and poverty reduction in most developing countries like The Gambia. Despite of the above roles, most SMEs are now

collapsing as a result of not accessing to credit. It is in line with this that our project identifies their major problem and come out with ways and means which will establish and sustain the vibrancy for SMEs so that they can play the expected vital roles as the engine of growth in our economic development.

In order to investigate their problems, a conceptual and theoretical framework of our project was designed. These guided the design of data collection instrument to suit the research. Our project combines oral interview and case study methods of data collection and analysis.

The study revealed among other things that: high female and youth domination, low level of education among SMEs members, lack of access to finance, etc...

In view of these, the major objective proposed is the establishment of a revolving loan fund for Small and Micro Enterprises in The Gambia and our project has addressed the operational aspect of the revolving fund.

Finally, effective implementation of the objective could lead to growth of SMEs in the Gambia and eventually result in creation of employment as well as poverty reduction in The Gambia.

Key words: SMEs, the Gambia, GDP, Revolving Loan Fund

RESUMÉ

Petites et micro-entreprises contribuent a un pourcentage important au produit intérieur brut pour assurer la croissance économique, l'emploi, la stabilité des revenus et la réduction de la pauvreté dans la plupart des pays en développement comme la Gambie. Cependant malgré l'importance de ces rôles ci-dessus, la plupart des PME sont en train de s'effondrer faute de ne pas avoir accès au crédit. Notre projet après avoir identifie les problèmes des PME propose une solution

qui pourrait contribuer au maintien de leur dynamisme afin qu'elles puissent jouer le rôle vital attendu comme le moteur de la croissance dans notre développement économique.

Ainsi, un cadre conceptuel et théorique de notre projet a été conçu. Notre projet combine l'entretien et l'analyse documentaire.

L'étude a révélé entre autres que : le pourcentage élevé des femmes et des jeunes parmi les promoteurs des PME membres, le manque de financement, etc....

Pour remédier à cela l'étude propose la création d'un fonds de crédit renouvelable pour les petites et micro-entreprises en Gambie. Dont les aspects opérationnels ont été discutés.

Enfin, la mise en œuvre effective du fonds pourrait conduire à la croissance des PME en Gambie et finalement aboutir à la création d'emplois ainsi que la réduction de la pauvreté.

Mots clés: PME, La Gambie, PIB, fonds de crédit renouvelable

LISTE OF ABBREVIATIONS AND ACRONYMS

| | |
|----------|--|
| ADB | African Development Bank |
| ADF | African Development Fund |
| BDS | Business Development Services |
| CBG | Central Bank of the Gambia |
| CSOs | Civil Society Organizations |
| ECF | Extended Credit Facility |
| FDI | Foreign Direct Investment |
| GAMFINET | Gambia Micro Finance Network |
| GDP | Gross Domestic Product |
| GRA | Gambia Revenue Authority |
| IDB | Islamic Development Bank |
| IMF | International Monetary Fund |
| IMFIs | Islamic Micro Finance Institutions |
| LCDs | Least Developed Country |
| MFI | Micro Finance Institutions |
| NBFIs | Non Bank Financial Institutions |
| NHPSR | National Household Poverty Survey |
| NGOs | Non-governmental Organizations |
| NSMD | National Small and Micro enterprises Development |
| PAGE | Program for Accelerated Growth and Employment |

| | |
|---------|--|
| PC | Project Coordinator |
| PMT | Project Management Team |
| PRSP II | Poverty Reduction Strategic Paper |
| QPR | Quarterly Progress Fund |
| RLF | Revolving Loan Fund |
| SMEs | Small and Micro Enterprises |
| UN | United Nations |
| VISACAs | Village Savings and Credit Association |

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INTRODUCTION

There is growing recognition of the important role small and micro enterprises (SMEs) play in economic development. They are often described as efficient and prolific job creators, the seeds

of big businesses and the fuel of national economic engines. Even in the developed industrial economies, SMEs Sector is the largest employer of workers. Interest in the role of SMEs in the development process continues to be in the forefront of policy debates in most countries. Governments at all levels have undertaken initiatives to promote the growth of SMEs (Feeney and Riding, 1997: Carsamer, 2009).

However, the Gambian economy thrives on small and micro enterprises (SMEs) which employ the largest share (60%) of the 15 to 64 years age bracket active labor force of which 70% are self employed, contributing an estimated 20% to GDP. This has driven the microfinance industry in the promotion and development of small and micro enterprises as well as entrepreneurs both in the formal and informal sectors. Current statistics from some Non Bank Financial Institutions (NBFIs) report an informal sector clientele of up to 65% and which is further growing with the increased demand for value added products both within the country and in the region. Therefore, the development of the microfinance industry is directly linked to poverty reduction through the growth of small and micro enterprises in the country.

It has however been worrisome that despite the incentives, policies, programs and support aimed at revamping the SMEs, they have performed rather below expectation in the Gambia. Different people, organizations, and operators have advanced various reasons as to why SMEs have not been able to live up to their expectations. While an average operator would always hinge his failure on lack of access to finance, some others think otherwise arguing that inappropriate management skills, huge some of foreign substitute goods, lack of entrepreneurial skills and know how, poor infrastructure etc. are largely responsible.

Some others have argued that the bane of SMEs in the Gambia is the lack of long-term loans since most loans in the Gambian market are short-term while what SMEs require to grow and become really successful is long-term patient capital. The key ones include inadequate infrastructural facilities (road, water, electricity etc), insecurity of lives and property, inconsistent monetary, fiscal and industrial policies, limited access to markets, multiple taxation and levies, lack of modern technology for processing and preserving products, policy reversals, capacity limitations, data inadequacies, harsh operating environment, fragile ownership base, fragile capital base. It is with this issue why our professional project wishes to look at **the establishment of a revolving loan fund for micro and small enterprises in The Gambia.**

However, the project's objective is the feasibility study of the revolving loan fund and how small and micro enterprises can easily access funds which will help in the sustainability of their enterprises. The project also aims at:

- presenting a conceptual framework of the revolving funds;
- presenting the project concept and rationale;
- Presenting the sources of financing and expenditure schedule

The principal interest of our project will be to make loan resources available to the SMEs, the vulnerable and poor segments of the population which currently has no access to fund. In this sense, the Fund will target the mainly the SMEs, wholesale resources progressively as the capacities of the non bank financial institutions (NBFIs) in the country are strengthened to deliver loans to new and existing clients. Therefore, the project of establishing a revolving loan fund will be accessible to all eligible Non Bank Financial Institutions (NBFIs) for on-lending to end clients. This is expected to enable the maximum outreach nationwide during the project life while at the same time allowing the SMEs and the NBFIs to grow.

The information or data that will be used in our project will be from targeted village associations around The Gambia, online research, The Gambia women's bureau website, action aid The Gambia website, selected published paper on SMEs, some financial institutions and selected finance text book.

Our project will be structured as follows. In the first chapter, we will give an overview of the Gambia and its financial sector.

In the second chapter, we will present our product and make a study of brief study of our strategies, organization and marketing.

The last chapter will look at the financial and the economic analysis of our project.

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CHAPTER 1:

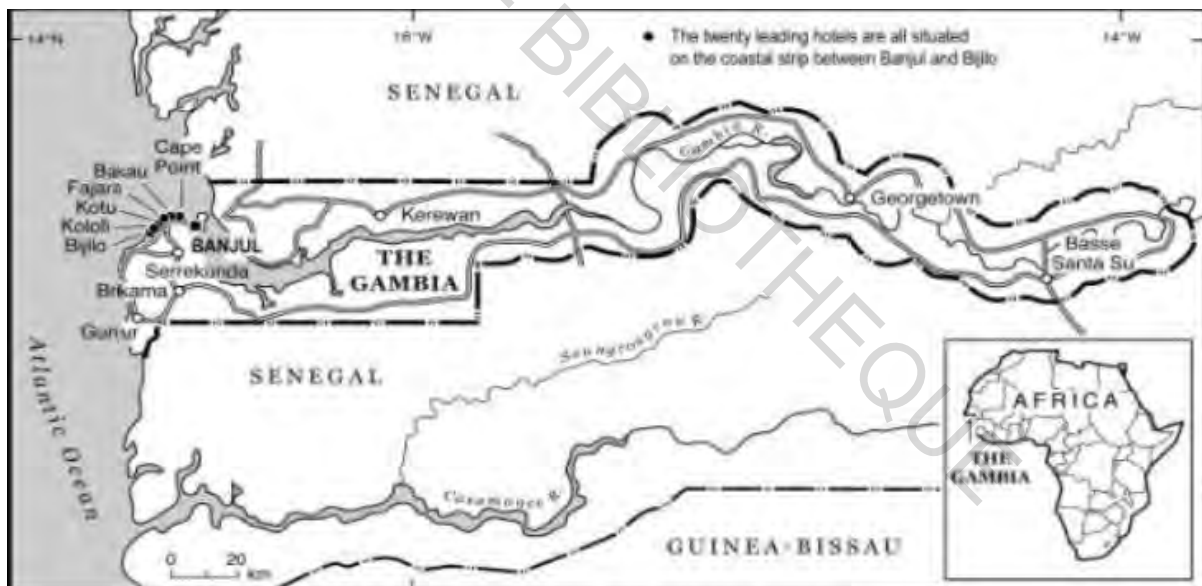
GAMBIAN ECONOMY AN OVERVIEW

1. Historical background

i. *Country characteristics*

The Gambia is the smallest country in continental Africa in terms of area. It has a population of about 1.8 million, which has been growing at an annual rate of 2.3 percent. With a per capita gross national income of 2.9 in 2013, it is one of the poorest countries in the world—with a score of 0.439, The Gambia ranks 165 in the 2013 UN Human Development Index (see United Nations Development Programme, 2013). Nearly 60 percent of the population live in poverty (see Republic of The Gambia, 2006). About 80 percent of the population depends on agriculture, which is dominated by groundnuts. However, because its productivity is low, the agricultural sector contributes only about one-fifth of real GDP. The service sector, which accounts for over 50 percent of real GDP, has been the major contributor to economic growth.¹

Figure 0: 1 MAP OF THE GAMBIA



ii. *Structure of the economy*

The Gambia has sparse natural resource deposits and a limited agricultural base, and relies in part on remittances from workers overseas and tourist receipts. About three-quarters of the population depend on the agricultural sector for its livelihood and the sector provides for about

¹ IMF working paper, WP/09/192, The Gambia: Demand for broad money and implication for monetary policy conduct

one-quarter of GDP. The agricultural sector has untapped potential - less than half of arable land is cultivated. Small-scale manufacturing activity features the processing of peanuts, fish, and hides. The Gambia's natural beauty and proximity to Europe has made it one of the larger markets for tourism in West Africa, boosted by government and private sector investments in eco-tourism and upscale facilities. In 2012, however, sluggish tourism led to a decline in GDP. Tourism brings in about one-fifth of GDP. Agriculture also took a hit in 2012 due to unfavorable weather patterns. The Gambia's re-export trade accounts for almost 80% of goods exports. Unemployment and underemployment rates remain high. Economic progress depends on sustained bilateral and multilateral aid, on responsible government economic management, and on continued technical assistance from multilateral and bilateral donors. International donors and lenders continue to be concerned about the quality of fiscal management and The Gambia's debt burden.

iii. Macro economics performance

The Government's macroeconomic policies are reflected in the International Monetary Fund (IMF) Extended Credit Facility (ECF) program. The targets under the program are anchored to the monetary policies of the Central Bank of the Gambia (CBG), which are geared towards safeguarding an annual inflation rate of no more than 5%. Based on a projected further rebound in agriculture in 2013, which anticipates that crop production will have fully recovered to pre-drought levels, and barring further external shocks, real GDP growth could surge to about 10% in 2013, before returning to its longer-term trend of about 5.5% per year. This growth is also aided by a new agricultural policy that encourages farmers to switch to less rain-dependent crops, a gradual but sustained recovery in tourism, remittances, and construction, and a return to large on-going investments in telecommunications.²

The inflation rate is expected to increase slightly from 4.4% at end-2011 to slightly above 5% in 2012-2013, driven by rises in food prices, before subsiding to 5% in 2014 and beyond. Under the baseline scenario (excluding implementation of the PAGE), real GDP is projected to grow at a robust pace (5.5% a year). This outlook is predicated on a gradual fiscal adjustment that would

² Taking into consideration the investments and programmes planned in the PAGE, real GDP growth would average some 8.5%, although the financing prospects are still uncertain.

reduce net domestic borrowing from 2014 onward, as proposed by the Gambian authorities. The fiscal adjustment would help ensure the CBG's independence to focus on maintaining annual inflation at 5%, while easing pressure on interest rates and helping "crowd in" the private sector. According to estimates from the IMF, the external current account deficit is expected to remain near 14% of GDP during 2012-2015, financed primarily by project grants, concessional loans, and foreign direct investment (FDI). The coverage of gross international reserves is projected to remain around 5 months of imports.³

Table I MACRO ECONOMIC PERFORMANCE OF THE GAMBIA

| | 2010 Act. | 2011 Est. | 2012 Proj. | 2013 Proj. indicative | 2014 Proj. |
|---|--------------|--------------|---------------|-----------------------------|---------------|
| Real GDP (%) (including the PAGE) | 5.5 | -4.3 | 3.9 | 10.7 [1] | 6.5 [1] |
| Consumer Price Index - end of period | 5.8 | 4.4 | 5.0 | 6.0 | 5.0 |
| Fiscal Balance, incl. grants | -5.8 | -4.3 | -3.5 | -2.2 | -1.9 |
| Current Account Balance, incl. grants | -16.0 | -15.3 | -16.2 | -15.0 | -13.4 |
| Gross official reserves (months of imports) | 4.4 | 4.4 | 4.7 | 4.8 | 4.9 |
| Public debt | 69.6 | 71.1 | 77.3 | 71.1 | 65.9 |
| Of which: domestic | 29.4 | 33.2 | 32.8 | 28.9 | 26.3 |
| Of which: external | 40.2 | 43.7 | 45.2 | 41.0 | 39.5 |

(% OF GDP UNLESS OTHERWISE INDICATED)

Source: IMF first review for the extended credit facilities

For explanation of real GDP growth projection in 2011 / 2014

2. THE ENTREPRENEURSHIP SUB SECTOR

iv. Salient features

In the Gambia, while about 59% (NHPSR) of the population was categorized as active labor force, only 14% is actually employed, of which 79% is operating in the informal sector. While there is significant variation in mean annual incomes between the sectors, the lowest is reported in agriculture sector and the highest being in transport, 40% of income derived from non-farm enterprises is reported to be used for direct household consumption. Those groups in the Gambia whose livelihood security is at risk may be classified as those who have no steady income either

³ This presumes average FDI equivalent to 6.6% of GDP during the period. Nonetheless, The Gambia remains very vulnerable to external shocks.

through formal or informal employment, depend solely on agriculture for livelihoods, and those whose incomes are below poverty lines. Women, as breadwinners, have very low incomes due to their low levels of literacy, poor skills and heavy involvement in maintenance of the family as result of the high fertility levels. Non-farm economic activities in The Gambia include handicraft and cottage industry operations such as tie and dye, soap-making, sewing/tailoring and embroidery. The main handicraft economic activities comprise pottery, weaving and basketry. The informal sector is a key source of income for the rural and urban poor. Those in the informal sector are engaged in: retail trade, carpentry and joinery, metal work/ fabrication, building industry, housing production, motor vehicle repairs and car wash, electronics repairs and electrical works, refrigeration and air conditioning repairs, fishing and fish smoking, food vending, transport (taxis and hand drawn carts), tour guides, dancing troupes and peri-urban agriculture.⁴

3. POVERTY AND VULNERABILITY IN THE GAMBIA

v. *Status of household vulnerability in the Gambia*

The Gambia is characterized by a dual economy: a large rural, mostly agricultural-based traditional sector, which encompasses about three-fifths of the country's population, and a relatively modern formal but smaller peri-urban sector. Overall, the recent economic performance was positive as tight fiscal and monetary policies prevailed. The overall fiscal deficit as a percent of GDP (including grants) was 4.5% in 2011 (reduced from 4.7% in 2010); by the end of 2011, the average annual inflation further declined to 4% in 2012, while the treasury bill rate significantly came down to 12% from 27% a year earlier.⁵

In the Gambia, food poverty (also referred to as extreme poverty) has increased markedly from 15% in 2002 to 51% in 2008 (latest Integrated Household Survey), whilst overall poverty more than doubled to 61% in 2013. Poverty prevalence also varies across the regions, with the Central River Division reporting 71% of the population being poor in 2013. The increasing poverty in the rural areas is the direct result of over-dependence on agriculture as the only income

⁴ www.IMFTheGambia.com

⁵ Food poverty is defined as the cost of a basket of food providing 2,700 calories. (SPA-II/PRSP, 2006).

generating activity, lack of diversification from agriculture based activities, decreasing agriculture production, insufficient post-harvest storage, processing, marketing and technical skills development opportunities. This, coupled with insufficient access to microfinance services, lack of appropriate technology, and inadequate access to entrepreneurial knowledge and opportunities, has led to increasing poverty and destitution in the Gambia, especially in the rural areas. Women's vulnerability to poverty is much higher, due to the fact that they continue to have lower social status in the Gambian society. Women have no right to own productive assets including land, in particular in rural communities, and they are forced out of family properties in times of death of their spouses or divorce. Over 78% of women who are economically active are engaged in agriculture, as opposed to 57% of men. Women are mainly engaged in the production of food crops mostly for consumption, such as rice.⁶

v. ***Constraints to the sector development***

The financial sector is exposed to some constraints. These are as follows:

- ***Weak regulatory and policy framework:*** Although the SMEs policy was approved in 2004, its operationalization in terms of institutional framework and coordination mechanisms has not been achieved. Similarly, the NSMD has also been finalized since over a year and has yet to be validated at the national level. As a result the entry of new service providers is constrained while the supervision and promotion of existing institutions is limited because of the lack of transparency of the legal requirements they are required to follow both for NBFIs and SMEs.
- ***Insufficient access to micro-finance:*** Due to the growing population and lack of jobs in the formal sector, informal businesses and entrepreneurship are growing. However, their operations are highly constrained by insufficient and ineffective access to micro-finance.
- ***Weak coordination mechanisms and guidance:*** The country suffers from lack of effective coordination and lead agency guidance both for the SME and the microfinance sub-sectors, respectively. Institutions which are meant to provide these services do not have institutionalized networking mechanisms. While the microfinance industry has established the Gambia Microfinance Network (GAMFINET) to facilitate, coordinate and

⁶ Overall poverty is defined as GMD 4,200 per capita (i.e. about US\$150). (SPA-II/PRSP, 2006)

enhance collaboration amongst NBFIs, the network is still in its infancy and lacks capacity to execute its mandate.

- ***Insufficient BDS training:*** The existing BDS providers suffer from capacity constraints which restricts their outreach to clients, and reduces the number of training sessions offered. Some of the existing training curricula have not been updated for some time and therefore do not always meet the needs of the trainees. In the microfinance industry, local microfinance expertise is limited to the provision of basic training modules and is generally provided by NGOs or projects and on an irregular basis by selected Government agencies. Private service providers are absent in this market and no specific education curricula exists in microfinance which constrains the entry of young and qualified human resources as trainers to the microfinance industry.
- ***Ineffective operational capacities:*** NBFIs are unable to meet the increasing demand for internal training and capacity building, as well as developing management tools and organization systems which address risks and external shocks. Security is also becoming an important issue due to the amount of resources handled by the sector mainly in the area of reducing the risks of financial fraud or mismanagement due to poor governance, unprofessional accounting and financial practices. Interest rate policies and costing of products are not based on adequate financial calculations and are a major reason for client drop out. The outreach of the institutions to rural areas and their expansion is constrained by high expansion costs.
- ***Weak market development:*** The Gambian entrepreneurs suffer from weak market linkages internally and outside the country. Internally, the country suffers from bad road and river networks, poor development of market infrastructure, and lack of access to market information and pricing systems for most SMEs. The Gambian products and services also suffer from lack of diversity and concentrations in uncompetitive in markets.

vi. Small and Micro enterprises in the Gambia

The Gambian economy thrives on small and micro enterprises (SMEs) which employ the largest share (60%) of the 15 to 64 years age bracket active labor force of which 70% are self employed, contributing an estimated 20% to GDP.

- ***Micro enterprise*** is defined as an informal economic activity with typically weak compliance to labor legislation and may use informal accounting and operational procedures. Micro enterprises typically require an average investment of less than GMD 75,000.
- ***Small enterprises*** are defined as slightly more formal, may employ up to five registration processes are reported to workers and may have an average investment of below GMD 150,000.
- ***Medium enterprises*** are bigger than small enterprises and employ more than five workers with an average investment of more than GMD 150,000. The sector is regulated by the Business Registration Act of 1990 which does not cater specifically for the needs of SMEs. The business registration process is still centralized in the Greater Banjul Area and is therefore very difficult for rural entrepreneurs to access these services. Moreover, take up to three to four weeks, which are identified as a constraint for rural entrepreneurship development. The registration fees are also viewed by some entrepreneurs as a constraint. Presently the registration process can be charged anything between GMD 500 to GMD 10,000 depending on the nature of the business and other criteria which are not clearly transmitted to the entrepreneur.

Figure 2 EXAMPLE OF SMEs



vii. The contribution of SMEs

It is widely recognized that at all levels of development small and medium enterprises (SMEs) have a significant role to play in economic development in general and in industrial development in particular. SMEs form the backbone of the private sector, make up over 90 percent of the enterprises in the world and account for between 50 to 60 percent of employment. SMEs engaged in manufacturing account for between 40 to 80 percent of the manufacturing employment. In the Least Developed Country (LDCs), the role is even more important since SMEs often offer the only realistic prospects for increases in employment and value added. This applies equally to the countries with economies in transition, where large inefficient state owned enterprises are giving way to much smaller and more efficient private entities.

SMEs make a vital contribution to the development process for the following reasons:

- SMEs are more labour intensive and tend to a more equitable distribution of income than larger enterprises. They play an important role in generating employment and thus alleviating poverty, often providing employment opportunities at reasonable rates of remuneration to workers from poor households and women who have few alternative sources of income.
- SMEs contribute to a more efficient allocation of resources in developing countries. They tend to adopt labour-intensive productivity methods and thus more accurately reflect the resource endowments in developing countries where labour is plentiful and capital is scarce. To the extent that these enterprises operate in informal markets, the factor and product prices they face also provide a better reflection of social opportunity costs than the prices faced by large enterprises.
- SMEs support the building of systemic productive capacities. They help to absorb productive resources at all levels of the economy and contribute to the establishment of dynamic and resilient economic systems in which small and large firms are interlinked. They also tend to be more widely dispersed geographically than larger enterprises support the development and diffusion of entrepreneurial spirit and skills, and help to reduce economic disparities between urban and rural areas.

Figure 3 SMEs SUPPORT



2. ISLAMIC MICROFINANCE

i. Historical background and definition

Initiatives in Islamic banking and conventional micro financing started concurrently in the mid-1970s. Given the newness of Islamic banking, researchers and practitioners have, until recently, overlooked issues related to Islamic microfinance. Though there has been discussion on financing small-scale enterprises by specialized institutions and Islamic banks using Islamic modes (see Mohsin 1995 and Yousri 1995), the new innovative poverty-focused format used by MFIs has not been examined. As mentioned earlier, the innovative operational format of MFIs suits the poor, whose lack of physical collateral disqualifies them to borrow from traditional commercial banks. Group based micro lending acts as social collateral and lessens the asymmetric information problem that exists in financial intermediation. Islamic microfinance institutions (IMFIs) can retain this innovative format of operation of conventional MFIs and orient the program towards Islamic principles and values. Though the basic format of Islamic MFIs will be similar to that of its conventional counterpart, there will be certain qualitative differences among them.

Microfinance means “program that extend small loans to very poor people for self employment projects that generate income in allowing them to take care of themselves and their families” (Microcredit Summit, 1997). It also refers to a variety of financial services that target low-income clients, particularly women. Since the clients of microfinance institutions (MFIs) have lower incomes and often have limited access to other financial services, microfinance products

tend to be for smaller monetary amounts than traditional financial services. These services include loans, savings, insurance, and remittances.

Microloans are given for a variety of purposes, frequently for microenterprise development. The diversity of products and services offered reflects the fact that the financial needs of individuals, households, and enterprises can change significantly over time, especially for those who live in poverty. Because of these varied needs, and because of the industry's focus on the poor, microfinance institutions often use non-traditional methodologies, such as group lending or other forms of collateral not employed by the formal financial sector.

However, microfinance and Islamic finance have much in common. Islam emphasizes ethical, moral, social, and religious factors to promote equality and fairness for the good of society as a whole. Principles encouraging risk sharing, individual rights and duties, property rights, and the sanctity of contracts are all part of the Islamic code underlying the financial system. In this light, many elements of microfinance are consistent with the broader goals of Islamic finance. Both advocate entrepreneurship and risk sharing and believe that the poor should take part in such activities. Both focus on developmental and social goals. Both advocate financial inclusion, entrepreneurship and risk-sharing through partnership finance. Both involve participation by the poor. There are however, some points of difference, discomfort and discontentment.

ii. *Principle of Islamic microfinance and Shariah compliance instruments*

The different Islamic financing methodologies are applicable according to the nature of commodity/business and the period for which the project will be financed. Before detailing the principal Islamic financing practices, however, we should remember that such methodologies are founded on the core belief that **money is not an earning asset in and of itself**. There are some general principles that are of particular importance for Islamic, or perhaps more precisely termed “*shariah* compliant”, finance and these include:

- There must be some risk, whether funds are used in a commercial or productive venture.
- A financial transaction needs to have a “material finality”, that is, it should be directly or indirectly linked to a real, tangible economic activity as opposed to financial speculation.

- The product or service that is bought or sold must be clear to both parties.
- There should be no funding of *haram* or sinful activities such as the production of alcoholic beverages or gambling, and funds should preferably finance socially productive activity. In broad terms, Islam forbids all forms of economic activity, which are morally or socially harmful.
- Financial risk must lie solely with the lenders of the capital and not with the manager or agents who work with the capital. Furthermore, a financial transaction should not lead to the exploitation of any party in the transaction.
- Interest is forbidden in that it is a predetermined, fixed sum owed to the lender irrespective of the outcome of the business venture in which the fund is used. This does not imply in any way that capital is free of charge or that it should be made available without any cost or that there should be absolutely no return on capital.

Rather, a return on capital is allowed, provided that capital participates in the productive process and is exposed to business risk. It is not permitted to sell what one does not own – therefore “short-selling” (selling something that one does not own in the hope that it can be bought cheaper at a later date) is impermissible.

A general objective common to all Islamic finance should be to develop the economy within and according to Islamic principles. Furthermore, honesty and moral responsibility in Islamic finance contracts are indispensable ingredients of Islamic behavior. As will become apparent from the following analysis according to Islamic financing principles there is in fact only one type of loan, namely *qard-al-hassan*, the remaining mechanisms are strictly speaking financing arrangements. However, for the sake of convenience our project does use the term ‘loan’ to describe the various lending methodologies.

3. ISLAMIC FINANCING TECHNIQUES

The different Islamic financing techniques which can be used are as follows:

Murabaha

Murabaha involves the resale of a commodity, after adding a specific profit margin (often referred to as a 'mark-up') by the lender to the borrower who agrees to buy that commodity for the new offered price. Usually, repayment is made in installments to the financier, who pays the price to the original supplier of the commodity. This type of finance is commonly used for financing assets or working capital inputs, such as raw materials, machinery or equipment. For *murabaha* to be *shariah* compliant the financier must own (or procure) the commodity first and then resell it; the commodity should be a tangible one; and the buyer must know and then agree to the purchase and resale prices. When all these conditions are fulfilled, both parties sign a *murabaha* contract in which all terms and conditions are clearly stated

Mudaraba

In a *mudaraba* contract two parties are involved; the financier, who provides all the money and the entrepreneur (or *mudarib*) who uses his or her skill to invest the money in an attractive business. In a *mudaraba* contract when a profit is realized, it is shared between the financier and the entrepreneur according to a pre-determined ratio. Importantly, profit-sharing rates must be determined only as a percentage of the profit and not as a lump sum payment. In the case of a loss, providing it has incurred in the normal process of business and not due to neglect or misconduct by the entrepreneur, the financier loses all his or her money, while the entrepreneur merely loses his or her time and effort. In cases of proven negligence or mismanagement by entrepreneurs, however, they may be held responsible for the financial losses.

Musharaka

Literally meaning partnership in Arabic, *musharaka* can perhaps best be understood in financing terms as an equity participation contract. However, although among all *shariah* scholars there is a consensus that the *musharaka* financing principle is legitimate they differ in their opinions with regard to the ratio of profits that can be charged in *musharaka* contracts.

Musharaka can be used for assets or working capital. At the end of the production cycle, or season, the costs of production are deducted from the revenue, and a certain percentage is earmarked for management fees, while the rest is divided between the partners according to their

percentage investment in the share capital or other agreed division. If the entrepreneur wholly manages the project, the management fees go to him/her, in addition to his or her profit share. If the financier is involved in management, parts of the fees are paid to the financier. Management fees usually range between 10-30% of profit, depending on the entrepreneur's bargaining power and the nature of the project (for example, if the activity requires special skills the share of the entrepreneur may be greater). Two or more partners may contribute to the capital and expertise of the investment. This type of transaction has traditionally been used to finance medium and long-term investment projects. The main difference between *musharaka* and *mudaraba* is that under the latter the entrepreneur offers his or her labor and skills only, without any contribution in cash or kind, and any losses are borne entirely by the financier. A *musharaka* can be continuous (to the end of a project's life span) or it can be a diminishing partnership, in which case the entrepreneur is allowed to buy out the financier's share gradually.

Ijarah

Ijarah is a contemporary financing methodology that has been increasingly adopted by Islamic financiers and is similar to the concept of leasing. Under this arrangement an entrepreneur short of funds may approach the financier to fund the purchase of a productive asset. The financier may do so by buying the productive asset and renting it out to the entrepreneur. The asset remains in the ownership of the financier who is responsible for its maintenance so that it continues to give the service for which it was rented. The *ijarah* contract is terminated as soon as the asset ceases to give the service for which it was rented or the leasing period comes to an end and the physical possession of the asset and the right of use reverts back to the financier. In specific cases the entrepreneur can make regular payments and become the owner of the financed equipment once he or she has paid all agreed installments. The latter transactions are referred to as *ijarah wa iqtina* or lease purchase arrangements. Importantly and like any other contract, a lease contract has to fulfill all of the conditions of a valid contract stipulated by the *shariah*. Thus, the contract should be clear, should be by mutual agreement, the responsibilities and benefits of both parties should be clearly detailed; the agreement should be for a known period and price, etc.

Qard-al- Hassan

The Quran clearly encourages Muslims to provide *qard-al-hassan* or benevolent loans to “those who need them”: *Who is he that will give Allah qard-al-hassan? For Allah will increase it manifold to his credit. (57:11) If you give Allah qard-al-hassan ... he will grant you forgiveness. (64:17) Establish regular prayer and give regular charity and give Allah qard-al-hassan. (73:20)*

In such loans the borrower should only repay the principal, although certain scholars allow the lender to cover the administrative costs incurred in disbursing the loan as well. The service charges are not profit; they are actual costs in respect of such items as office rent, salaries, stationary, etc. Islamic law allows a lender to recover from the borrower the costs of the operation over and above the principal. However, an important condition attached to such charges to prevent them becoming equivalent to interest is that the commission or charge cannot be made proportional to the amount or to the term of the loan. In practice, such service fees are frequently in the range of 2-4% of the loan amount (for example the Islamic Development Bank Jeddah in Saudi Arabia charges 2-3% Hossain 2002).

Service charge: $(E/A) \times 100$

Where

E: administrative expenses during the year

A: average assets during the year

Who should receive *qard-al-hassan* loans? The practices of various Islamic lenders differ in this respect. Some Islamic banks only provide *qard-al-hassan* loans to those who are existing clients of the bank, while others restrict such loans to weak or needy sections of society. However, other lending institutions extend this service to include small producers, farmers or entrepreneurs who are unable to receive finance from other commercial banks or other lending institutions.

4. Instrument of financing and mobilization of funds

Other than being interest-free, Islamic Micro Finance Institutions (IMFIs) would differ from conventional MFIs in several important ways. On the liability side, the sources of funds of

conventional MFIs come mainly from foreign donors (both multilateral and national agencies), government and the central bank. IMFIs, in addition, can get funds from religious institutions of *waqf* and other forms of charities. The institution of *waqf* originated during the time of the Prophet (Peace Be upon Him) and entails the use of cash, land, and real estate for charitable purposes. There are certain conditions governing *waqf*, but the objective is to serve the poor and the community. The presence of *waqf* and charities on the liability side of IMFIs is compatible with the social financial intermediation role of MFIs. On the asset side of the balance sheet, the bulk of the assets of conventional MFIs are interest-bearing debt, given for different activities (trade, production, transport services, etc.). Interest (one form of *riba*) being prohibited in Islam, the assets of IMFIs will comprise different types of non-interest bearing financial instruments. Important aspects of Islamic modes of finance are that financial capital cannot claim a return on itself and that the transaction must involve a real good or object. Principles of Islamic financing are many and varied. The type of financing instrument will depend on the type of activity for which funds are granted.

CHAPTER 2:

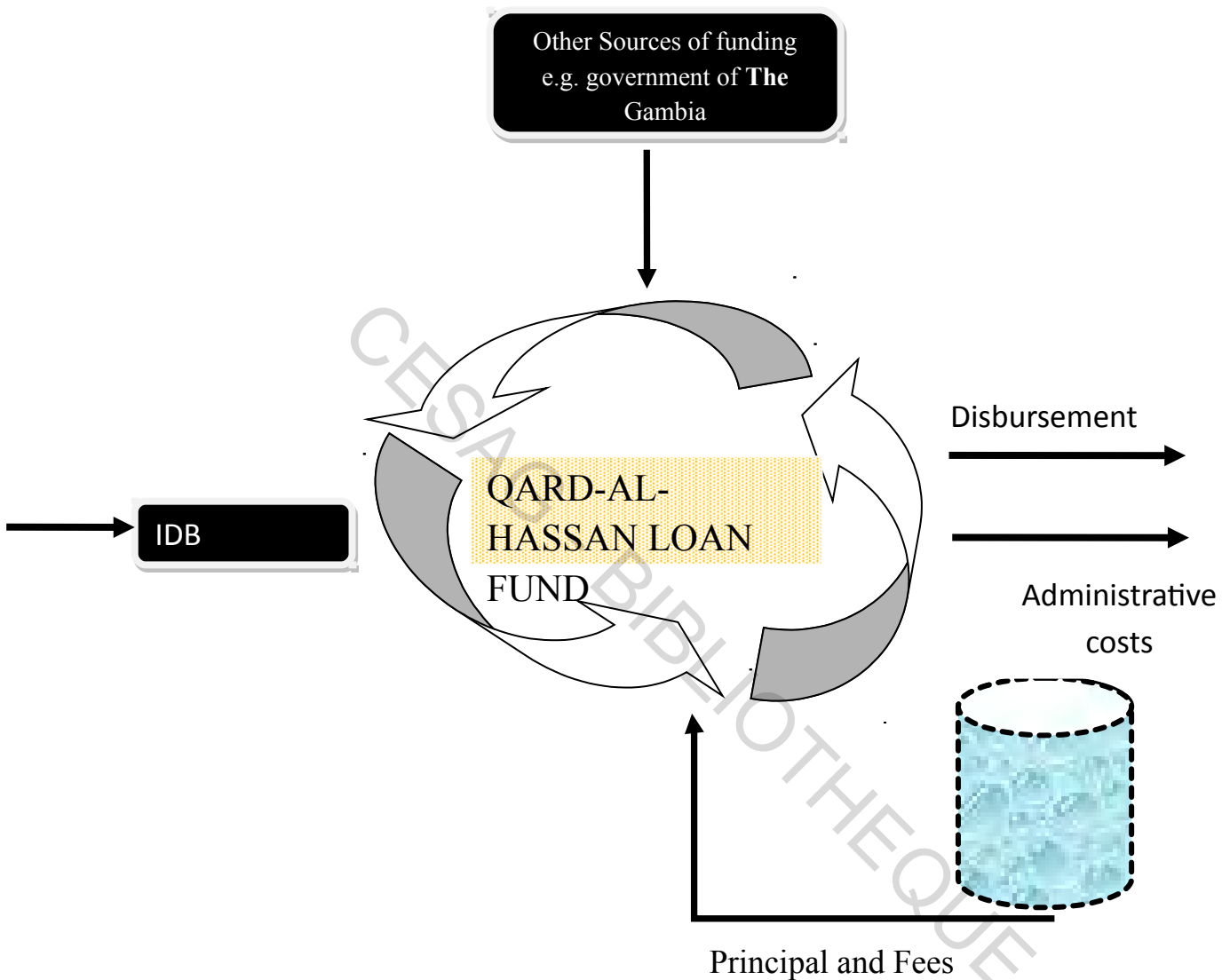
PRESENTATION OF THE PROJECT

This chapter will highlight the following issues:

- ✚ **Introduction of the revolving loan fund (which is based on QARD-AL-HASSAN)**
- ✚ **The project target areas and beneficiaries**
- ✚ **The terms and conditions of the loan**
- ✚ **The sources of funding**
- ✚ **Uses of the fund**
- ✚ **Loan disbursement procedure**
- ✚ **The product's promotion and marketing**
- ✚ **Organization and management**
- ✚ **Strategic context**

1. *Introduction of the revolving loan fund (QARD-AL-HASSAN)*

A revolving loan fund (RLF) is a source of money used to provide loans for projects. The name Revolving Loan Fund is derived from the fact that as loans for projects are repaid, new projects are funded, revolving from one borrower to the next. RLFs are often capitalized with grant funds that do not have to be repaid. Presently, many countries across Africa are utilizing specific pools of grant funding to set up RLFs and leverage limited resources to most effectively support their local communities. RLFs offer unique benefits to both lenders and borrowers. Many governments in sub Saharan Africa are realizing that opportunities exist in their communities for the private sector to undertake work that will provide a great benefit for their constituents, but a few key challenges make it financially unfeasible for this work to move forward. By using RLFs to slightly reduce project cost and access to capital, governments have enabled their local businesses to do what they do best—create jobs and make sound investments that pay off in the long-term. Because most RLFs are intended to support specific goals and fill credit gaps, lenders who can help meet those objectives also offer distinct advantages. These benefits can include more lenient credit and approval criteria, longer repayment terms, lower interest rates, leveraging of funds by subordinating lien positions to private lenders, and relaxing underwriting criteria (higher debt to equity, lower debt coverage ratio, etc...).

Figure 4 REVOLVING LOAN FUND (QARD-AL-HASSAN)

The Gambia with 96% of its population being Muslims, we conclude that our product will fit in. Since it is new and we have existing village savings and credit associations (VISACAs), we deem it necessary to work in partnership with them for the time being. Our target groups are the SMEs and the service we will be offering to them is a loan which is free of charge called in Islam QARD-AL-HASSAN.

Our loan will be accessible to all SMEs provided that:

- ✓ you are banking with the VISACAs
- ✓ you registered your SMEs with the Gambia Revenue Authority (GRA)
- ✓ you have been operating for at least five years
- ✓ the SME is in the rural area

2. Project target areas and beneficiaries

The Project will support the financing of approximately 250 SMEs (according to GRA there are approximately 1000 registered SMEs) countrywide. In the interest of supporting the SMEs which contribute immensely in the economy, the project will facilitate micro-finance and savings mobilization access and also create new loans.

The beneficiaries of this project will be SMEs from rural areas whose poverty situation is exacerbated due to lack of diversification in their economic activities and these will be identified through a community based demand driven approach which will ensure after extensive information dissemination on the project activities.

Thus, the project will offer, on a demand-driven basis, entrepreneurship and skills development training, including training in accessing and managing loans from the micro-finance institutions for business start-up to rural community members, especially women and youth. The offer of training opportunities will be demand-driven in that initially the rural population will be sensitized on the project activities and mobilized at the regional level to benefit from the training offered, specifically with regards to the type of skills they would be interested to learn.

The total population of the five rural regions is 1.1 million approximately (according to records) constituting 70% of the total population. Recent population figures show that almost 40% of the Gambian population is in the age group Zero to 15 years and 44% in the age group 15 to 40 years. This indicates a growing burden on the youth and adult population to provide for household survival needs. It has been observed that most SME members fall within the age bracket 15 to 40 years and they are the major providers of household food and livelihood needs. In this sense, providing a solution to their problem means unemployment reduction, minimizing rural-urban migration and sustainability of their projects which was on the verge of fading out due to lack of financing.

3. The terms and conditions of the loan

The duration of the revolving loan project will be 10 years. However, Loans disbursement may be repaid at any time with no prepayment penalty. The loan interest rate is 0% and will not be changed during the life of the loan. The maximum amount of loans issued under the project will be 50,000 Dalasi and the minimum will be 20,000 Dalasi. Date of repayment has to be respected or else sanctions will be imposed, such sanctions are:

- ✓ Equipments may be seized
- ✓ Termination of the project license
- ✓ The SME can be sued to court

4. Sources of funding

The total amount of funds needed for our project is estimated at fifty (50) million dalasi which will come from Islamic Development Bank (IDB), ten (10) million from the government of The Gambia, and two (2) million from non- governmental associations.

Other sources of funding will be:

- ✓ Borrowings: SMEs members can borrow money from friends and relatives.
- ✓ Loans and over drafts from Islamic banks.
- ✓ Grants from government: The RLF can obtain capital by especial grants from the government, international financial institutions, African Development Bank (ADB), International Monetary Fund (IMF) and from other foreign countries.

5. Uses of the fund

The Gambian microfinance sector is in the heart of its expansion during these past years. It offers different services since its existence ranging from the banking to the insurance sector. Globally, the uses of the revolving loan will be as follows:

- a) **Granting interest free loan**: This is loan with no interest added, only administration fees are paid to acquire it. This type of loan is at per which Islam since our project follows that path. 70% of our fund will be given out as loan; it will be accessible to our target groups based on mutual understanding.
- b) **Meeting some investment/ capital expenses** (e g: acquiring new equipment): 10% of our fund will be put on investment like purchasing of equipments which are highly needed by the SMEs, acquiring plot of land, building ware houses, buying cars etc...
- c) **Others** (e g: capacity building, technical assistance): Training technical assistance who will serve as advisors when the need arises (e.g.: SMEs that are in the agricultural sector needs advices on how to preserve their produces after harvesting etc...)

6. *The loan disbursement procedure*

In this program, the fee is an actual reflection of real administrative charges that RLF incurs in receiving, analyzing and disbursing loans and does not vary with the loan amount. While *mudaraba* and *murabaha*, and indeed other types of Islamic financing can be applied to extending microfinance in almost all instances, they are not always the least cost methods of extending microfinance and in practice would mean that only a relatively limited number of loans could be given.

Furthermore, the profit margin that have to charge to borrowers to cover a small proportion of its costs would make loans unattractive to poorer borrowers. Therefore, the use of a flat administrative charge will be adopted in our project and indeed this loan methodology will work well. Presently, our project will employ a range of loan methodologies that will depend upon the purposes for which the loan is used.

Figure 5 Loan disbursements Process





INTERNAL FACTORS:

- Vital sector: It is vital because most of the SMEs members are Muslims and they want to use products that are in line with their religion.
- Low financing cost: Our product is interest free, and its administrative charges are lower than that of our competitors.
- Conformity with the belief of the population: With a population where in 96% are Muslims, our product has come to solve their problem.
- Sustainable project: The life span of our product tends to be long because our market is large and productive.

EXTERNAL FACTORS:

- Emerging market: Since it is an emerging market and our product is unknown to most of the clientele, we are expecting a low turnover in the first years.
- Possibility of expansions: there is a great chance of expansion because our target groups have approved the arrival of our product in the market.
- Unfavorable regulatory environment: Since our project wants to follow the Islamic rules and regulations, our product may face some problems with the realities that already exist on the ground.

7. The product's promotion and marketing

A *marketing expert consultant* will be recruited by the project to oversee the implementation and coordination of all marketing related activities. A central focus of product promotion under the project will be to ensure extensive exposure of our new service (QARD-AL-HASSAN), entrepreneurs and link them with private sector operators, both national and regional, in the respective MFIs for sustainable and increased customers. To this end, the project will support the recruitment of an experienced and specialized training service provider who will be responsible for developing these linkages between the SMEs and the MFIs, through networking, service display and sampling, price and loan negotiation, etc... Extensive service promotion and marketing strategies will be applied to further expose trained entrepreneurs to tap into new and existing markets while attracting local and regional clients to increase the loan request.

The project will achieve this by supporting 250 SMEs to access the fund (starting year 1). Furthermore, these 250 SMEs will participate in one regional networking visit per year to source new niche markets and opportunities for increased clients.

Local marketing strategies to be applied under the project will include the development of an SME promotion radio advocacy campaign at least 200 radio spots for transmission of revolving loan fund oriented advocacy messages, containing information on availability of our services, respective prices, markets, etc... Increased exposure for local MFIs and SMEs will be further achieved by the publication of at least 5 success story cases as means of advertising their products. The success story cases will be captured in the form of pamphlets, in English and local languages, to be distributed for increased networking within the country as well as abroad. The project will also support basic rehabilitation of key markets in the 5 regions as an added strategy to further improve marketing of the revolving fund.

8. Organization and Management

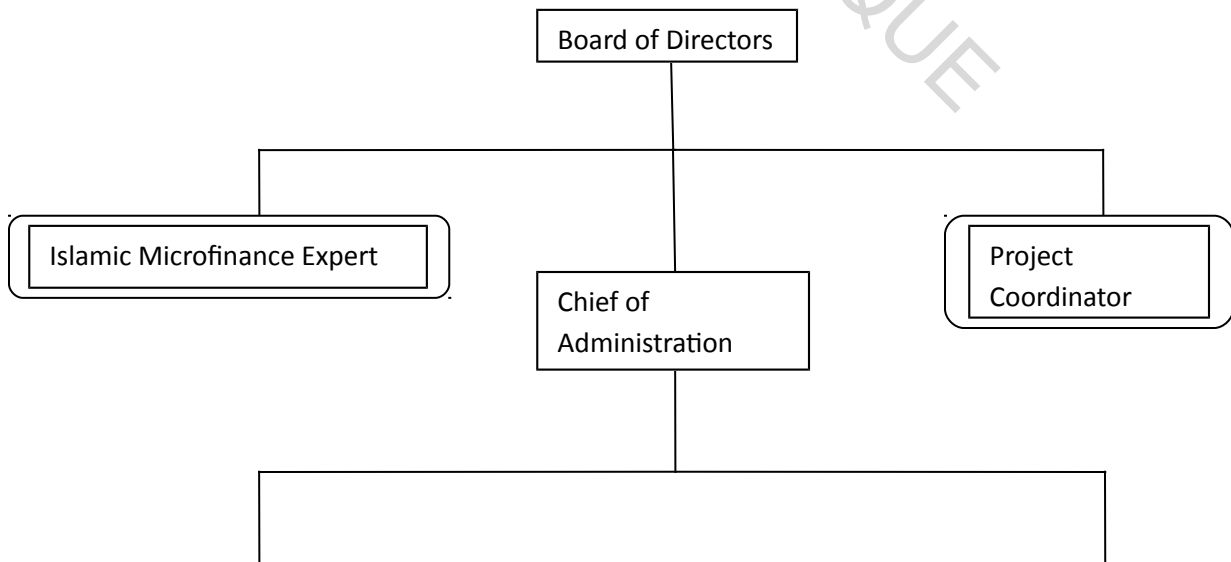
A Project Coordinator (PC) will be recruited from project resources to head the project management team (PMT). The PC will be supported by a financial controller, an Islamic micro-finance expert, a chief of administration, an accountant, a procurement expert consultant, a monitoring and evaluation expert consultant, and other relevant support staff. The PC will also be supported by a number of technical assistants, such as: a marketing expert, SMEs Development expert, SMEs Regulatory Framework expert, Islamic Microfinance Policy

Development expert, Islamic Microfinance Regulatory and Legal environment expert, procurement consultant and monitoring and evaluation consultant, as well as other short term consultants to ensure project implementation is carried out effectively.

The Project Coordinator will be responsible for the coordination and implementation of the project activities for all the beneficiaries under the project, as well as preparation and submission of the relevant progress reports and Quarterly Progress Reports (QPR).

Furthermore, the Project Coordinator will oversee the recruitment of relevant individual consultants and/ or firms or NGOs for the implementation of the activities. The Project Management Team will report regularly to the Steering Committee and receive feedback, and undertake all procurement and disbursement functions under the project.

Figure 6 ORGANIGRAM





9. *Strategic context*

The Gambia Vision 2020, a long-term strategy (1996-2020) that envisions transforming the Gambia into a dynamic middle-income country, is based on three strategic development areas;

- a) Accelerating private sector development,
- b) Restructuring economic management, development human capital base, and
- c) Institutionalizing decentralized and democratic participatory government structures, processes and systems.

The project concept will be based on the strategies outlined in the poverty reduction strategic paper (PRSPII) (2007 – 2011) and falls within Pillar two:

“Enhance the capacity and output of productive sectors” and Pillar three: *“Improve coverage of basic social services and the social protection needs of the poor and vulnerable”*.

The project is in line with National Small and Micro Enterprise Development Policy, the National Strategic Framework Paper for Micro-finance, National Youth Policy, and the National Women’s Development Policy, which all emphasize the need to address rural poverty and livelihood security issues by empowering communities to diversify economic activities and generate income sustainably. Thus, the project is also in line with African Development Fund (ADF) policy on Poverty Reduction. The selection of interventions is also underpinned by the ADF X Plan of Action with respect to poverty reduction and rural entrepreneurship development,

which include support for institutional capacity building and promoting rural households' access to assets, technology, markets, and improved livelihood security.

The project is in conformity with The Bank's Microfinance Policy (ADF/BD/WP/2006/08/rev1) and applies all its recommendations. It will intervene at the three levels of the Gambian microfinance sector and adopt an overall and coherent strategy to tackle the issues related to legal and regulatory environment, infrastructure and support services and retail capacity of NBFIs. It addresses specifically the recommendation

“The Bank will primarily support investments in building the capacity of retail intermediaries to increase their sustainability and outreach to people who do not have access to quality financial services, improve the quality and increase the variety of their services, make them ratable by competent rating agencies, and assure their financial self sufficiency”.

Moreover, it applies the recommendations of CGAP relating to best practices under the constraint of the Gambian specific environment and size of the institutions: all NBFIS supported are legally registered by the CBG, are submitted to national prescriptions relative to the exercise of financial services and to production of financial statements. Moreover a well defined set of criteria of eligibility for the accessing loans by NBFIs will guarantee the integrity of the fund and transparency in the funds allocation.

CHAPTER 3:
FINANCIAL AND ECONOMICAL ANALYSIS OF THE PROJECT

In this chapter, we will look at the establishment of the project, the investments to be made and the expected returns.

The establishment of the project will require an estimated budget, an investment plan, a table showing the returns of the investments which both the implicit and explicit cost incurred.

1. *Investment Plan*

To be able to provide the SMEs with an easy access of credit in a form of a revolving loan (Qard-al-hassan), we have to make some initial investment which helps us to estimate the required capital to start up our activities. In that sense, we will lodge our product in the existing village savings and credit associations (VISACAs). They already have in possession the required soft ware to do the work and will receive some benefits from our activity. Our earnings will be shared

between the VISACAs and SMEs, 40% and 60% respectively. Our revolving loan will be funded by Islamic Development Bank (IDB), the government of The Gambia, Non-governmental Associations (NGOs) and the SMEs member contributions which will be in a form of “USUSU”.

We are based on the similar products that already exist in The Gambia to establish our basic needs. However, we will have to:

- ✓ buy cars
- ✓ buy computers
- ✓ Acquire office equipments
- ✓ To rent an office

Below, is a detailed table containing all the required materials, quantities, unit price and their totals.

Table II DESCRIPTION OF THE REQUIRED MATERIALS

| ITEM DESCRIPTION | QUANTITY | UNIT PRICE | TOTAL |
|---------------------|----------|------------|-------------------|
| CAR | 2 | 680,000.00 | 1360000.0 |
| COMPUTERS | 2 | 10,200.00 | 20400.00 |
| PRINTING MACHINES | 2 | 5,000.00 | 10000.00 |
| EXECUTIVE SEAT | 1 | 1,700.00 | 1700.00 |
| EXECUTIVE DESK | 1 | 8,925.00 | 8925.00 |
| VISITORS SEATS | 2 | 200.00 | 400.00 |
| FILLING CABINETS | 2 | 4,250.00 | 8500.00 |
| CANOPY | 2 | 38,250.00 | 76500.00 |
| MS OFFICE SOFT WARE | 1 | 2,550.00 | 2550.00 |
| MISCILLANEOUS | 2 | 500.00 | 1000.00 |
| TOTAL | | | 1489975.00 |

Source: Our own

Estimated budget, a summary of the balance sheet

Table III BALANCE SHEET

| BALANCE SHEET | | | |
|-------------------------|---------------------|---------|---------------------|
| DEBIT | | CREDIT | |
| INTANGIBLE ASSET | 5,000,000.00 | EQUITY | 6,489,975.00 |
| LICENSE | 5,000,000.00 | CAPITAL | 6,489,975.00 |
| TANGIBLE ASSETS | 1,489,975.00 | | |
| | | LOANS | |
| EQUIPMENTS | 107,025.00 | | |
| COMPUTERS | 20,400.00 | | |
| CARS | 1,360,000.00 | | |
| SOFTWARE | 2,550.00 | | |
| TOTAL | 6,489,975.00 | | 6,489,975.00 |

Source: Our own

We need an initial investment of 6,489,975.00 DALASI; these expenses come from the procurement of the equipment that we need to start up operation. These are going to be procure using our initial capital.

2. *Estimated return on investment*

Our revenue will come from the charges that we will levy on the loan procedure form, the disbursement and the transactions as well for period of twelve (12) months in the case of a long term loan and six (6) month for a short term loan.

Based on an oral interview that we had with some SMEs across the Kombo Saint Mary division and Kanifing Municipal council, it helps us to set up a fixed tariff on the services we will render to them which sums up one thousand Dalasi for each loan.

- ✓ A sample of two hundred and fifty (250) SMEs will be taken for the first year (according to research there are roughly 1000 registered SMEs) with a 20% increment in the following year,
- ✓ Four thousand seven hundred and eighty Dalasi (D4780.00) should be charged as administrative fee, but only one thousand dalasi (1000.00) will be charged and the rest will be burn by the IDB fund.
- ✓ For loans that will be disbursed, the least will be equivalent to twenty thousand Dalasi (D20, 000.00) and the highest will be fifty thousand Dalasi (D50, 000.00).

We decided to give out these values because 90% of the SMEs that we happen to interview fall within the range of thirty five thousand Dalasi (D35, 000.00), on which we will charge two hundred and fifty dalasi (D250.00) for each loan request as an implicit cost for service we will be rendering.

- ✓ For the loans that will be disbursed, we decided it to be twenty four (24) loans yearly, which is equivalent to two(2) loans monthly which will be multiplied by the sample.
- ✓ Loans repayment will be free of charge because the amount which has been given will be what you will return in.
- ✓ The revenue that the project will earn will be used to pay staffs salaries and the rest will be shared among the SMEs based on their initial contributions. We doing this because our product is profit free.
- ✓ No tax will be imposed on it because its profit free.

Table IV ESTIMATED TURNOVER

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | |
|---------------------|---------|---------|---------|---------|---------|---------|---------|---------|-----------|-----------|
| ADMINISTRATIVE COST | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| QUANTITY | 250 | 300 | 360 | 432 | 518 | 622 | 746 | 896 | 1,075 | |
| TOTAL | 250,000 | 300,000 | 360,000 | 432,000 | 518,400 | 622,080 | 746,496 | 895,795 | 1,074,954 | 1,224,000 |

LOAN REQUEST

| | | | | | | | | | | |
|------------|-----------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| AMOUNT | 35,000 | 35,000 | 35,000 | 35,000 | 35,000 | 35,000 | 35,000 | 35,000 | 35,000 | 35,000 |
| QUANTITY | 250 | 300 | 360 | 432 | 518 | 622 | 746 | 896 | 1,075 | |
| SUB-TOTAL | 8,750,000 | 10,500,000 | 12,600,000 | 15,120,000 | 18,144,000 | 21,772,800 | 26,127,360 | 31,352,832 | 37,623,398 | 45,150,000 |
| COMMISSION | 250 | 250 | 250 | 250 | 250 | 250 | 250 | 250 | 250 | 250 |
| TOTAL | 8,750,250 | 10,500,250 | 12,600,250 | 15,120,250 | 18,144,250 | 21,773,050 | 26,127,610 | 31,353,082 | 37,623,648 | 45,150,250 |

DISBURSEMENT

| SAMPLE OF SMEs | 250 | 300 | 360 | 432 | 518 | 622 | 746 | 896 | 1,075 | 1,290 |
|--------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|--------------------|--------------------|
| NUMBER OF LOANS PER YEAR | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 24 |
| TOTAL | 28,680,000 | 34,416,000 | 41,299,200 | 49,559,040 | 59,470,848 | 71,365,018 | 85,638,021 | 102,765,625 | 123,318,750 | 147,980,000 |

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Table V GLOBAL ESTIMATED TURNOVER

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| ADMINISTRATIVE COST | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| LOAN | 8,750,250 | 10,500,250 | 12,600,250 | 15,120,250 | 18,144,250 | 21,773,050 | 26,127,610 | 31,353,082 | 37,623,648 | 45,148,328 |
| ADNIM COST/LOAN | 6,000,000 | 7,200,000 | 8,640,000 | 10,368,000 | 12,441,600 | 14,929,920 | 17,915,904 | 21,499,085 | 25,798,902 | 30,958,682 |
| TOTAL | 14,751,250 | 17,701,250 | 21,241,250 | 25,489,250 | 30,586,850 | 36,703,970 | 44,044,514 | 52,853,167 | 63,423,550 | 76,108,010 |

Source: Our own

Table VI SHARING OF THE REVENUE

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|--------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| SALARIES | 8,850,750 | 24,371,060 | 26,534,166 | 28,994,482 | 31,804,663 | 35,027,554 | 38,738,219 | 43,026,360 | 47,999,228 | 53,785,115 |
| VISACAs | 5,900,500 | 16,247,373 | 17,689,444 | 19,329,655 | 21,203,108 | 23,351,703 | 25,825,479 | 28,684,240 | 31,999,485 | 35,856,743 |
| TOTAL | 14,751,250 | 40,618,433 | 44,223,610 | 48,324,137 | 53,007,771 | 58,379,257 | 64,563,698 | 71,710,599 | 79,998,713 | 89,641,858 |

Source: Our own

However, the turnover will be shared as mentioned earlier, 40% for the VISACAs and 60% for the OPERATING EXPENSES.

5. Staff and operating budget

To be able to have clear picture of our profits after investment, we have to outline our expenses, turnovers and as well the expected profit margin that we should have after payment of the tax. However all charges will be spread over the following years.

Table VII STAFF AND OPERATING BUDGET

| DESCRIPTION | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| EXECUTIVE DIRECTOR | 300,0 00 | 315,0 00 | 330,7 50 | 347,2 88 | 364,6 52 | 382,8 84 | 402,0 29 | 422,1 30 | 443,2 37 | 465,3 98 |
| PROGRAM COORDINATOR | 240,0 00 | 252,0 00 | 264,6 00 | 277,8 30 | 291,7 22 | 306,3 08 | 321,6 23 | 337,7 04 | 354,5 89 | 372,3 19 |
| IT MANAGER | 180,0 00 | 189,0 00 | 198,4 50 | 208,3 73 | 218,7 91 | 229,7 31 | 241,2 17 | 253,2 78 | 265,9 42 | 279,2 39 |
| ADMIN AND FINANCE ASSISTANCE | 150,0 00 | 157,5 00 | 165,3 75 | 173,6 44 | 182,3 26 | 191,4 42 | 201,0 14 | 211,0 65 | 221,6 18 | 232,6 99 |
| DRIVER/MESSENGER | 30,0 00 | 31,5 00 | 33,0 75 | 34,7 29 | 36,4 65 | 38,2 88 | 40,2 03 | 42,2 13 | 44,3 24 | 46,5 40 |
| PROVIDENT FUND CONTRIBUTION | 70,0 00 | 73,5 00 | 77,1 75 | 81,0 34 | 85,0 85 | 89,3 40 | 93,8 07 | 98,4 97 | 103,4 22 | 108,5 93 |
| ELECTRICITY BILLS | 50,0 00 | 52,5 00 | 55,1 25 | 57,8 81 | 60,7 75 | 63,8 14 | 67,0 05 | 70,3 55 | 73,8 73 | 77,5 66 |
| INTERNET BILLS | 75,0 00 | 78,7 50 | 82,6 88 | 86,8 22 | 91,1 63 | 95,7 21 | 100,5 07 | 105,5 33 | 110,8 09 | 116,3 50 |
| MISCELLANEOUS | 100,0 00 | 105,0 00 | 110,2 50 | 115,7 63 | 121,5 51 | 127,6 28 | 134,0 10 | 140,7 10 | 147,7 46 | 155,1 33 |
| TOTAL OPERATING EXPENSES | 1,195,0 00 | 1,254,7 50 | 1,317,48 8 | 1,383,3 62 | 1,452,53 0 | 1,525,1 56 | 1,601,41 4 | 1,681,48 5 | 1,765,5 59 | 1,853,83 7 |
| SMEs | 250 | 300 | 360 | 432 | 518 | 622 | 746 | 896 | 1, 075 | 1,2 90 |
| REAL ADMINISTRATIVE COST | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |

Source: Our own

However, one could observe that, the project will be yielding its benefits in the first year and both the VISACAs and the SMEs has to sustain it taking into consideration all the challenges awaiting them throughout the life of the project.

3. ECONOMIC IMPACT

The overall outcome and benefit from the project will be the establishment of a revolving fund which would empower SMEs to diversify income sources and expand their economic opportunities and which would contribute to increased well-being and improved poverty coping mechanisms of all the SMEs members.

The Islamic microfinance capacity building activities will allow financial service practitioners to increase their service outreach to those areas and clients who have been previously constrained by geographical and capacity factors. These new and existing microfinance clients will be empowered to engage in any small business activity and other related economic activities resulting in reinvigoration of the local economy and increased employment of youth. Improved coordination and information dissemination of IMFI performance will help to further regularize and develop the microfinance industry.

In particular, it is envisaged that our project will contribute to increased savings mobilization estimated to be GMD 108 million over the project life. Moreover, through the continuous revolving of the micro-finance funds, it is expected that 100,000 new clients will have access to financial services in the rural areas of which 70% are expected to be women. In addition to the direct benefits to the average SMEs in terms of savings/deposit services, indirect benefits to the same SMEs in greater liquidity in the marketing system through easier access to credit and other financial services for traders and rural enterprise groups will enable sustainable economic growth in the rural areas and contribute to rural poverty reduction through increased investments in improved health, education and nutrition.

Business and entrepreneurial skills enhancement will contribute to establishing better and sustainable entrepreneurial activities, and enable the local people to identify and address local problems with local solutions. Entrepreneurial activities and other support services will lead to job creation for skilled and semi-skilled artisans. The project will train 5,000 men, women and

youth of whom it can be assumed that at least 75% will use the newly acquired entrepreneurial management and skills knowledge for starting or improving their economic activities. It is envisaged that promotion of SMEs will result in at least 4000 SMEs being established, resulting in the sustainable employment of at least 10,000 salaried employees in the country. With an average salary for semi-skilled individuals of approximately GMD 3,000, it can be expected that the project will help support at least GMD 6 million in salaries as a result of the project. This will have further macro-economic impact on consumption and savings. Assuming that at least 75% of salary earned will go into consumer goods and livelihoods improvement, there will be a quantitative impact on production of consumer goods, housing, etc., while savings will be further increased and benefit to the local financial institutions.

It is expected the entrepreneurship and skills training together with the enhanced access to Micro-finance will increase SMEs income. For example, it is estimated that a fish smoking entrepreneur will experience a net profit increase of GMD 2,150 per week; an entrepreneur involved in preparing snacks and foods for schools will experience an increase in net profit of at least GMD 400 per week; while a micro-entrepreneur involved in preparing ground-nuts for snacks will experience an estimated increase in net profit of at least GMD 50 per day. This increase in net income will particularly benefit women who are the majority in these activities.

Moreover, the increased income is expected to alleviate the stress experienced by women in providing for family and household needs. This would enable them to afford labor saving resources such as intermediate transport for fetching water, fuel wood, going to the market, etc. and as well contribute to their increased participation in community and village decision-making forums. Furthermore, the training and financing provided under the project will contribute to the development and promotion some of the typical micro and small businesses such as vegetable gardening, artisanal fishing, fish smoking, food vending and snacks making, repairs of electronic technologies such as cellular phones, domestic equipment, etc.

CONCLUSION

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At the end of our research, we have observed that the establishment of a revolving loan fund has helped us relieve the SMEs from their main problem which is access to credit from the financial institutions. This has helped us bring Islamic micro finance at the door step of all Gambians especially the SMEs.

In summary, our research has shown that financial institutions in The Gambia- especially banks- are in a process of expansion; however, the establishment of a revolving loan fund for SMEs will be a solution for their problem. Since, SMEs do not face major restrictions in accessing deposit accounts for savings; they do face limitations when accessing credit from financial institutions. VISACAs have played an important role in delivering micro credits; however, other external actors to the financial sector have taken the lead in satisfying SMEs credit demands. By implementing various strategies, such as group based lending, partnerships among institutions, stable policies, formality and sustainability among SMEs, and the timely delivery of credits, it is possible that SMEs in The Gambia can improve their access to financial services, and credit. Finally, it is important to point out that these efforts should not be one time isolated events, but rather from part of a holistic approach focused on generating an enabling environment for the development of SMEs.

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ANNEXES

| Box II: Instruments of Financing in Islamic Microfinance | | | | | |
|---|---|------------------------|-------------------------|----------------------------|--|
| <i>Instrument</i> | <i>Suitable for</i> | <i>Cost of capital</i> | <i>Risk to Borrower</i> | <i>Risk to Institution</i> | <i>Remarks</i> |
| <i>Mudarabah/ Musharakah</i> | Fixed assets, working capital (Declining form suitable for housing and equipment finance) | Very high | Low | Very high | Costs of loan administration and monitoring are high given the complexity of the repayment schedule and lack of proper accounting; Perceived to be ideal but not popular in practice |
| <i>Ijarah</i> | Fixed assets | Moderate | High | Moderate | Costs of loan administration and monitoring are low given simple repayment schedule allowing for flexibility and customization based on client preferences; Popular among Islamic MFIs and potential for easy adaptation by conventional MFIs |
| <i>Murabahah</i> | Fixed assets and Working capital | Moderate | High | Moderate | Costs of loan administration and monitoring are low given simple repayment schedule; multiplicity of transactions in working capital financing can push up costs; Highly popular in practice notwithstanding popular perception of it being a close substitute of <i>riba</i> -based lending |
| <i>Qard</i> | All-purpose | Very low | Very low | Moderate | Charity-based usually combined with voluntarism; low overheads; Popular because perceived to be the purest form of financing |
| <i>Salam</i> | Working capital | High | High | High | Back-to-back nature creates risk of lack of double coincidence; Untried |
| <i>Istisna</i> | Fixed assets | High | High | High | Back-to-back nature creates risk of lack of double coincidence; Untried |
| <i>Istijrar</i> | Working capital | Moderate | Moderate | Moderate | Ideal for micro repetitive transactions; Complexity not easily understood by parties; hence not a popular mechanism |

REQUEST

Total No. of Applicants: _____ No. of Female: _____ No. of Male: _____

Amount of Loan: _____ in words: _____

Purpose for which the loan is required: _____

Intended Payment Duration: _____ Grace Period: _____

Source of Repayment: _____

How do you intend to repay: _____

Security Proposed: _____

Are you currently enjoying any Credit or Lease Facility (Tick the one appropriate)? YES _____ NO _____

If yes give detail below:

| SR # | Lender's Name | Amount Borrowed (GMD) | Duration | Expiry Date | Balance Outstanding |
|------|---------------|-----------------------|----------|-------------|---------------------|
| 1 | | | | | |
| 2 | | | | | |
| | Total | | | | |

Declaration and acceptance

I/We hereby certify that all the particulars given above are true and complete. We understand that we will be notified by letter if the application is approved.

Please remember to enclose:

1. Copy of Business Tax Payer Identification Number (TIN)
2. Copy of Business Registration Certificate;
3. Copy of List of clients & Amount.
4. Copy of Constitution or Articles of Association
5. Account statements from past year;
6. Loan portfolio quality report; (Pls. give them a format to use)
7. Detail reports of all previous loans if any;
8. Detail report of any problems that occurred in previous contracts including high default rates; and
9. Detail report of current end borrowers.

Name: _____ Position: _____

Signature of applicant

Date _____

Stamp/ Seal:



SDF



THE GAMBIA SOCIAL DEVELOPMENT FUND
LOAN APPLICATION FORM FOR CBOs, KAFOOs

Name of Organization: _____
 Address of Organization: _____
 Contact Person: _____ Tel: _____
 Business Registration No: _____ TIN: _____
(Attach copies of this document) (Attach copies of this document)
 Total Membership: _____ No. of Female: _____ No. of Male: _____
 Years of Operation: _____

BANKING INFORMATION

List of Bank(s) & Account No.(s):

| SR # | Name of Bank | Address of Bank | Account Number | Current Bank Balance |
|------|--------------|-----------------|----------------|----------------------|
| 1 | | | | |
| 2 | | | | |
| 3 | | | | |
| 4 | | | | |
| | | | Total | |

PORTFOLIO INFORMATION

Amount(s) of Loan(s) Outstanding: _____ Amount(s) in Default to Date: _____
 Total Balance of Savings: _____ Average Savings Balance: _____
 Average Loan Size: _____ Portfolio at Risk (<30days): _____

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