

6th. Meeting of COMCEC Financial Cooperation Working Group

The Gambia Country Presentation

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1. INTRODUCTION

- The report covers developments in the Gambia Domestic Economy and status of Islamic Finance for the year ended December 2015.
- The report is in three main parts – Macro economics, Evolution of Islamic Finance and Islamic Finance Strategy

2. Developments in the Domestic Economy

- **Real GDP**
- The Gambia Bureau of Statistics has revised upwards real GDP growth for 2014 from the earlier estimate of 0.5 percent to 0.9 percent, citing less-than-expected contraction in agricultural output than previously estimated. Growth in 2015 is expected to be supported by strong recovery in tourism and agriculture as well as increased infrastructure spending.

2. Developments in the Domestic Economy

2.2 Money and Banking Sector Developments

- Growth in the monetary aggregates decelerated in 2015. Broad money (M2) contracted by 0.9 percent in 2015 compared to the growth of 11.2 percent in 2014. This was primarily the result of the contraction in the net foreign assets (NFA) of the banking sector. In contrast, the net domestic assets (NDA) of the banking sector rose by 13.9 percent compared to 14.2 percent a year earlier. Reserve money grew at an annual rate of 10.0 percent, lower than the 11.9 percent a year ago, owing to the marked contraction in the NFA of the Central Bank.

2. Developments in the Domestic Economy

- The key financial soundness indicators show that the fundamentals of the banking industry remain strong. The industry risk-weighted capital adequacy ratio averaged 32.6 percent in 2015, higher than the required minimum of 10.0 percent.
- Total assets of the industry increased to D29.3 billion, or 3.8 percent from 2014. Gross loans and advances, accounting for 16.7 percent of total assets, decreased to D4.91 billion, or 9.4 percent from 2014 attributed mainly to 8.5 percent contraction in private sector credit. The ratio of non-performing loans to gross loans rose from 7.2 percent in 2014 to 9.2 percent in 2015.



2. Developments in the Domestic Economy

- Deposit liabilities totaled D16.5 billion, a decrease of 1.9 percent from 2014. The liquidity ratio averaged 93.0 percent, higher than the statutory minimum requirement of 30.0 percent.
- The industry recorded a net profit of D604.0 million, but lower than D624 million in 2014. The return on assets was 2.1 percent and the return on equity (13.5 percent) compared to 2.2 percent and 15.9 percent respectively in 2014.
- In the year to end-December 2015, the domestic debt stood at D22.6 billion (59.1 percent of GDP) from D18.8 billion (53.0 percent of GDP) in 2014. Treasury bills and Sukuk Al Salaam, accounting for 67.7 percent and 2.63 percent of the debt stock, increased by 4.3 percent and 0.02 percent respectively.

2. Developments in the Domestic Economy

Government Fiscal Operations

- Data on government fiscal operations indicated that revenue and grants amounted to D8.0 billion (21.0 percent of GDP) in 2015 compared to D7.5 billion (20.0 percent of GDP) in 2014.
- Total expenditure and net lending amounted to D10.4 billion (28.3 percent of GDP) compared to D9.8 billion (26.3 percent of GDP) in 2014. Current expenditure rose to D8.4 billion or 15.5 percent higher than in 2014, largely attributed to the sharp increase in interest payments by 47.7 percent to D2.8 billion (30.4 percent of tax revenue).

2. Developments in the Domestic Economy

- The overall budget balance (excluding grants) on commitment basis was a lower deficit of D2.8 billion (7.6 percent of GDP) in 2015 compared to a deficit of D3.6 billion (9.7 percent of GDP) in 2014. The overall budget balance (including grants) on commitment basis was unchanged at D2.4 billion, or 6.3 percent of GDP.

2. Developments in the Domestic Economy

External Sector Developments

- Preliminary balance of payments estimates for 2015 indicated an overall surplus of US\$62.1 million compared to US\$112.9 million in 2014.
- The current account deficit widened to US\$115.2 million compared to the deficit of US\$81.8 million in 2014.
- The capital and financial account recorded a surplus of US\$177.3 million, lower than the surplus of US\$194.7 million in 2014.

2. Developments in the Domestic Economy

- As at end-December 2015, gross international reserves amounted to US\$76.0 million, equivalent to 2.5 months of import cover, lower than the US\$111.6 million, or 4.5 months of import cover in December 2014.
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2. **Developments in the Domestic Economy**

- **Inflation Outlook**
- Consumer price inflation, measured by the National Consumer Price Index (NCPI), decelerated to 6.7 percent in December 2015, from 6.9 percent in December 2014. This was primarily as a result of the decline in food inflation from 8.43 percent in December 2014 to 4.83 percent in December 2015. In contrast, non-food inflation increased from 4.8 percent in December 2014 to 5.17 percent in December 2015.

3. *Overview of Current Islamic Finance Landscape*

- Central Bank of The Gambia's measure of core inflation, which excludes the prices of volatile food items, utilities and energy, decreased to 6.7 percent in December 2015 compared to 6.9 percent in December 2014.

3. *Overview of Current Islamic Finance Landscape*

Background

- The key underlining principle of the CBG's strategy for Islamic Finance is to get the private sector to buy into the concept so that they can drive its development in the country while building capacity at the regulatory level and increasing awareness of IFIs amongst key stakeholders

3. *Overview of Current Islamic Finance Landscape* ***Legal and Regulatory Framework***

- The introduction of Islamic finance started with Islamic Banking, whose development was facilitated by the amendment of the Financial Institutions Act, 1992 (the hitherto main regulation governing the banking sector) to provide the legal basis for Islamic Banking. The Financial Institutions Act, 1992 has since been replaced by the Banking Act, 2009, which also has provisions for Islamic Banking. Further regulatory guidelines have not been developed to guide the operations of Islamic Banks. However, one can submit that the current practice is to apply the broad principles of the guidelines governing conventional banks to regulate Islamic Banking operations.

3. *Overview of Current Islamic Finance Landscape*

- As regards the insurance sector, the Insurance Act, 2003 was amended to allow for Takaful operations in The Gambia in 2006. The regulatory framework for Islamic insurance has not moved beyond the confines of the Insurance (Amendment) Act, 2006, and the approach like that for Islamic Banking, is to use the broad principles governing conventional insurance operations to govern Takaful operations in the country.

Overview of Current Islamic Finance Landscape

- The development of Islamic Microfinance is yet to have a legal framework. A Taskforce was set-up in 2008 to prepare a Bill to govern the operations of the broad Non-Bank Financial Industry and the Microfinance sector. The Draft Bill is still under Ministerial review and is yet to be tabled at the National Assembly.

3. *Overview of Current Islamic Finance Landscape*

- *Players*
- The Gambia has one full-fledged Islamic Bank, the Arab Gambian Islamic Bank (AGIB), which began operations in the country in 1997. There is only one Islamic insurance company operational in The Gambia, Takaful Insurance (G) Ltd which started operations in 2008. There are currently no Islamic Microfinance institutions licensed and operating in the country .

3. *Overview of Current Islamic Finance Landscape*

Key Initiatives

- Summarized below, are the key initiatives that the CBG has taken/is currently taking to support the development of the broad IF sector in The Gambia.
- Amended legal framework for conventional banking and insurance to insert provisions that allow for Islamic banking and insurance operations respectively.
- In 2008 a Taskforce was set-up to draft a Non-Bank Financial Institutions Bill. The draft Bill, which has provisions for Islamic Microfinance, is yet to be enacted by the Legislature.

3. *Overview of Current Islamic Finance Landscape*

- Another key initiative undertaken to broadening the Islamic Finance sector was a study tour to Bahrain in 2005 to inter alia conduct the following:
 - To study the prudential regulations for Islamic Banks introduced by the Bahrain Monetary Agency (BMA) and gauge their applicability in The Gambia.
 - To study the modalities used by BMA to invest on a short-term basis the excess liquidity of Islamic Banks.
 - To visit Islamic Banks to review their service offerings and gauge their applicability in The Gambia and study their internal operational structure and governance arrangements.

3. *Overview of Current Islamic Finance Landscape*

- One major outcome of the Bahrain study tour was the introduction of the Sukuk Al Salam (the conventional equivalent of 3 months Treasury Bills) in 2007.
- Another major outcome of the Bahrain study tour was that it created awareness and an appreciation of Islamic Finance within Ministry of Finance and The CBG.
- The introduction of the development of Islamic finance in the CBG's strategic objectives for its 2015-2018 Strategic Plan.
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3. *Overview of Current Islamic Finance Landscape*

- Key initiatives planned by the CBG to develop the IF sector include:
 - ***INSTITUTIONAL CAPACITY BUILDING***
 - Register as a member of the IFSB to enable the Bank to get technical updates on a regular basis.
 - Seek out strategic partnerships with bilateral and multilateral institutions that will help to support the development of the broad IF sector in the country.

3. *Overview of Current Islamic Finance Landscape*

Public awareness campaign to promote Islamic finance through:

- Radio programs.
- TV programs.
- Friday prayers sermons.
- Educational institutions.
- Print media.
- The internet.

3. *Overview of Current Islamic Finance Landscape*

- Capacity building across the board:
 - CBG staff.
 - Operators.
 - Shariah boards.
 - Judges.
 - Accountants.
 - Capital market team.
 - Educational institutions.
 - Other stakeholders.

Overview of Current Islamic Finance Landscape

- Introduction of Islamic finance in the curriculum of educational institutions to be supported by the CBG and the government:
 - University of The Gambia (UTG).
 - Management Development Institute (MDI)
 - Other tertiary institutions.

Overview of Current Islamic Finance Landscape

FINANCIAL INFRASTRUCTURE DEVELOPMENT

- Set up an Islamic Finance Committee with the remit to discuss issues affecting the sector.
- Set up Shariah Supervisory Council at Central Bank Level.
- Set up an Islamic Finance Desk within the CBG to coordinate activities in:
 - Islamic Banking.
 - Islamic Insurance.
 - Islamic Microfinance.
- Create budget for Islamic Finance within the CBG

Overview of Current Islamic Finance Landscape

- ***REGULATORY FRAMEWORK DEVELOPMENT***
 - Review laws to accommodate appropriate provisions for Islamic Finance:
 - The Central Bank Act, 2005.
 - Banking Act, 2009.
 - Non- bank Financial Institutions Bill.
- Develop specific guidelines for:
 - Licensing.
 - Supervision.
 - Operations.

Overview of Current Islamic Finance Landscape

Regional Initiatives to Develop the Sector

- The suggested regional initiatives to develop the sector proposed by the CBG at the workshop were:
- Leverage on existing regional arrangements, institutions and protocols to develop capacity in IF. The first point of action in this regard would be to introduce Islamic Finance in the curriculum of the training programmes offered by the West African Institute for Finance and Economic Management (WAIFEM).

Overview of Current Islamic Finance Landscape

- Joint engagements by the Project Countries to apply for projects such as COMCEC Project 2014-GAMFINAN-061 and 2015 GAMFINAN-131 that are geared towards regional initiatives to develop the broad IF sectors of the respective Project Countries.

Overview of Current Islamic Finance Landscape

COMCEC Funded Project (2014-GAMFINAN-061)

Background

- The Gambia, through the auspices of the Ministry of Finance and Economic Affairs (MOFEA) secured funding from the Standing Committee for Economic and Commercial Cooperation (COMCEC) of the Organization of Islamic Cooperation (OIC) to implement a project geared towards enhancing greater literacy, awareness and availability of Islamic Financial Instruments (IFIs) in the COMCEC member countries of The Gambia, Nigeria and Sierra Leone (Project No. 2014-GAMFINAN-061).

Overview of Current Islamic Finance Landscape

- The Project primarily sought to enhance financial literacy and the understanding of Islamic Financial Instruments (IFIs) with a view towards increasing their availability in The Gambia, Nigeria and Sierra Leone and to create awareness of IFIs, especially within key target groups that are critical nerves of any successful IF business model.
- The project operationalized these objectives by executing 3 main deliverables :

Overview of Current Islamic Finance Landscape

- The preparation of a baseline survey to gauge the current levels of literacy, availability and awareness of IFIs and the general state of the respective Islamic Finance (IF) sectors of the Project Countries.
- A joint study tour to Malaysia for a team of Banking Supervisors drawn from the CBG, the Central Bank of Nigeria (CBN) and the Bank of Sierra Leone (BSL) to learn more about Malaysia's IF ecosystem.

Overview of Current Islamic Finance Landscape

- A regional workshop themed “Building Islamic Finance in The Gambia, Nigeria and Sierra Leone” that was hosted by the CBG on September 14-15 2015, and had participants drawn from the banking and insurance regulators of Nigeria and Sierra Leone respectively, from Bank Negara Malaysia (BNM) as well as a number of key stakeholders from The Gambia, which included participants from various departments from the CBG, the private sector (banks, insurance companies, microfinance), industry groups, Shariah scholars, tertiary/training institutions, and government authorities.

Overview of Current Islamic Finance Landscape

Regional Workshop Objectives and Scope

- The main objective of the workshop was to deliberate on how to build Islamic Finance in the Project Countries using the experiences of Malaysia as a point of departure. A report entitled “Islamic Finance Institutionalization Strategy for The Gambia, Nigeria and Sierra Leone” is the main output of the workshop. This report was based on the presentations delivered at the workshop and key takeaways from roundtable discussions held by the workshop participants.

Overview of Current Islamic Finance Landscape

- **Regional Workshop Report**
- This report with inter alia, seek to map out implementable roadmaps towards promoting greater awareness and use of Islamic Financial Instruments at country levels, as well as highlight technical areas of cooperation and joint collaborations towards implementing IFIs at the sub-regional level (between The Gambia, Nigeria and Sierra Leone).

Overview of Current Islamic Finance Landscape

- The report is comprised of 3 Sections. Section one provides some background on the workshop's terms of reference and scope of activities, while section 2 gives an overview of the various papers that were presented at the workshop as well as the recommendations that
- emerged from the various group discussions that were held, while the third section concludes the report with some regional level recommendations that could be implemented by the Project Countries to boost their respective IF sectors.

4. WORKSHOP REPORT CONCLUSIONS AND RECOMMENDATIONS

Conclusions

- The regional workshop provided a platform for the sharing of experiences and knowledge on what it takes to develop an optimal IF sector and the steps involved in building up the sector. The experiences of Malaysia show that developing a viable IF sector is a gradual process that takes commitment from all stakeholders in the value chain supported by a committed and competent regulator that has a clear vision for the sector and the capacity to execute this vision. It also confirmed that

Overview of Current Islamic Finance Landscape

- The workshop also confirmed that the different Project Countries are at varying levels of development of their respective IF sectors, and it can be submitted that Nigeria has a more developed sector than the other project countries on aggregate. The development path adopted by Nigeria takes a strong cue from Malaysia's experiences and as such represents a local model that The Gambia and Sierra Leone can learn from.

Overview of Current Islamic Finance Landscape

- Given the divergent nature of the respective IF sectors of the Project Countries, one cannot point to a unique set of recommendations on the steps that need to be taken to develop their respective IF sectors at country level.

WORKSHOP REPORT CONCLUSIONS AND RECOMMENDATIONS

- The development of the right legal and regulatory framework for the IF sector is a necessary prerequisite for the optimal development of the sector and is one of the key building blocks that must be in place for the sector to grow.
- There is a need to increase capacity (human resource) both at the level of the regulator and private sector financial firms.
- The levels of awareness of IF amongst key stakeholders, especially customers and private firms is very low and needs to be improved and it should be one of the near term interventions targeted to develop

WORKSHOP REPORT CONCLUSIONS AND RECOMMENDATIONS

- There is a need to actively seek out collaborations between the local industry, academia and regulators with external parties outside the Project Countries in order to develop competencies in IF.
- There is a need to actively engage the private sector through training and incentives (especially tax incentives) to position them to drive the IF growth agenda.

WORKSHOP REPORT CONCLUSIONS AND RECOMMENDATIONS

- The various recommendations outlined in the respective country presentations, group discussions and the lessons learnt from Malaysia's experience, provide useful insights for the Project Countries which they can use to initiate, refine or deepen their respective IF development strategies.
- Aside from the country level initiatives, there are a number of suggested regional initiatives which came out of the workshop which the CBG, the CBN and BSL can actively work to actualize. These are summarized in the recommendations section below.

WORKSHOP REPORT CONCLUSIONS AND RECOMMENDATIONS

- **Recommendations for Regional IF Development Initiatives**
- Outlined below are recommendations on regional initiatives that can be pursued by the CBG, the CBN and BSL to develop their respective IF sectors, that emerged from the workshop.

WORKSHOP REPORT CONCLUSIONS AND RECOMMENDATIONS

- ***Creation of a Working Group amongst the Project Countries on Developing IF:*** This is one of the major recommendations that emerged from the workshop. The different Project Countries are at varying levels in their respective IF development with Nigeria having the most developed sector on aggregate; albeit not in all aspects. This underscores the need for the Project Countries to have a formalized avenue of cooperation in matters pertaining to Islamic Finance to facilitate the sharing of experiences and best practices amongst themselves.

WORKSHOP REPORT CONCLUSIONS AND RECOMMENDATIONS

- The Project Countries have well established modalities of cooperation in a number of areas, which should make it easier to establish something similar for Islamic finance. Given the growing regional economic linkages, it is imperative for the Project Countries to actively work towards achieving a level of convergence in the regulatory environment for their respect IF sectors, as this would make it easier to implement regional initiatives on the sector and further boost regional economic linkages.

WORKSHOP REPORT CONCLUSIONS AND RECOMMENDATIONS

- *Leverage on Regional Organs like WAIFEM to support the development of the IF sectors in the Project Countries:* WAIFEM is an existing regional body that was formed by the regional central banks to promote learning and knowledge dissemination. The Institute organizes regularly training programmes which attracts participants from the respective central banks of the Project Countries.

WORKSHOP REPORT CONCLUSIONS AND RECOMMENDATIONS

- Given the importance of capacity building as has been highlighted by the various Project activities, it is imperative for the Project Countries to actively work to have IF training programmes introduced into the WAIFEM curriculum. Furthermore, it is recommended that the Project Countries leverage on all the regional level institutions like WAIFEM that are already in place, which can be useful in promoting the broad IF sector development agenda.

WORKSHOP REPORT CONCLUSIONS AND RECOMMENDATIONS

- ***Establish a regional funding mechanism with contributions from the central banks of the respective Project Countries:*** This fund could be used to fund joint initiatives in the broad IF sector. This could be targeted at thematic areas like awareness or capacity building.
- ***Submit Joint Proposals to bilateral and multilateral institutions for funding for joint projects in Islamic Finance.*** The successful implementation and impact of Project 2014-GAMFINAN-061 attests to the effectiveness of this approach, making it imperative to actively seek out such joint collaborations.

5. Key Challenges

The key challenges for the development of the Islamic Finance sector include:

- Inadequate customer awareness about the products and services.
- Capacity constraints at all levels.
- Lack of specialized Islamic banking and Insurance courses.
- Lack of up-to-date IT infrastructure to integrate activities.
- High claim settlements in medical insurance portfolio.
- Inadequate investment opportunities.

6. The Way forward

Role of Islamic Finance in Implementing Development Plans

- The Ministry of Finance and Economic Affairs (MOFEA) is exploring how Islamic Finance can make the following contributions to national development:

- ***Fill the funding gap for infrastructure through Sukuk issuances.***
 - Learn from the examples of Malaysia, the Gulf Cooperation Council (GCC) countries and some African countries like Senegal , South Africa and Sudan who issued Sukuks in \$millions.
- ***Support policy measures in the area of social protection.***
 - Islamic finance possesses models for solidarity-based financing with important features of social sustainability.
 - Zakat has great potential to mobilize additional untapped resources for poverty alleviation.
 - Waqf (a charity endowment in Islamic law), typically a plot of land or even cash for charity purposes, can be used as key instruments for promoting poverty alleviation and increasing the resilience of the poor.

- ***Supporting increased financial inclusion.***
 - Islamic microfinance rapidly growing market, offering millions of disadvantaged people in Muslim countries and beyond access to financial services.
 - **Implementation of Regional Workshop recommendations**
 - **Implementation of Central bank of The Gambia strategy for developing Islamic Finance**
- **Continuous collaboration with development partners like COMCEC, IDB and others.**



THE END

- Thank You for your kind attention