Complementarity Analysis Islamic Banks / Microfinance Institutions in Senegal

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Summary

The purpose of this article is to assess the use of the complementary relationship between the Islamic Bank of Senegal and microfinance institutions in the SME financing process. Currently in Senegal, the constraints on the financing of SMEs are intensifying more and more and continue to limit state policies in the process of promoting sustained economic growth for lack of funding model that responds effectively to investment needs of the latter. In this perspective of marginalization of SMEs by traditional financial intermediaries' especially traditional banks, the importance of using Islamic Bank / MFI complementarity could be a solution to such a situation of under-financing of SMEs. This new funding model can have a downward impact on transaction costs, reduce risk management and increase the medium- and long-term volume of credit available to SMEs. It would thus promote the financial and social inclusion of Senegalese SMEs. This new funding model can have a downward impact on transaction costs, reduce risk management and increase the medium- and long-term volume of credit available to SMEs. It would thus promote the financial and social inclusion of Senegalese SMEs.

Key words: Complementarity, Islamic banking of Senegal, microfinance institutions, SMEs, inclusive and social finance

J.E.L classification : G21, G14, O17

Introduction:

In the financial system of Senegal, MFIs contribute to the economic growth and social development of vulnerable microentrepreneurs, in the sense that they contribute to raising the level of employment and increasing incomes.
In addition, many MFIs have real financing needs to meet the difficulties associated with medium and long-term credit applications. To obtain significant resources, MFIs have two possibilities: on the one hand, they can be self-financing, and on the other hand, they can establish external refinancing relationships with other financial structures including banks.

If the MFI merely builds refinancing relationships with banks such as Islamic ones, it is bound in its activities to respect the laws and norms of the Islamic law and to be in conformity with the Islamic ethics in the more general sense and with the provisions of *Shari'a* governing Islamic finance.

Indeed, Peillex and Ureche-Rangau (2012) emphasize that the precepts of Islamic finance prohibit clients and investors who manage to obtain funding from Islamic financial institutions certain sectors or types of activities deemed illegal by the Quran or *Shari'a.* In reality, even if the microfinance institution is considered profitable in its activities, if it carries out activities considered in the Moslem law as haram (the breeding or the sale of pigs, the manufacture or the sale of the alcohol, games of chance, interest-bearing loans, the trading of metals, especially gold ...), it can not be refinanced by the Islamic finance structures, for example the Islamic Bank of Senegal.

Complementarity between Islamic Bank of Senegal[1] (BIS) and the microfinance sector is currently an important aspect of the financing relationship between financial institutions and SMEs. In sub-Saharan African countries, particularly in Senegal, the issue of under-financing of SMEs is one of the major concerns that block innovation and employability, and hinder the promotion of economic growth.

Indeed, SMEs occupy 99.8% of the economic fabric. Their turnover reached 3450.3 billion FCFA and they employ about 45% of the active population of Senegal in 2016 (ANSD / RGE, 2016). Despite their importance, the activity and expansion of SMEs are experiencing a considerable slowdown due to lack of innovation and external financing.

Islamic banks have sufficient resources (Huet et al, 2014). At present, they are making remarkable progress in Africa. Islamic investments injected into this African continent account for 1.5% of global Islamic investments (The World Economy, 2017). Although the presence of Islamic financial institutions is weak compared to conventional ones, this new funding model is full of hope for a number of investors and especially microentrepreneurs. The intermediation of Islamic banks is characterized by its tools and products related to Islamic ethics and encourages productive investment through the principle of sharing risks, losses and profits (Hamza and Guermazi-Bouassida, 2012).

Islamic banks to ensure a socially responsible financing model are based on the rules of Islamic law (dictated by the Sharia committee) to ensure their credibility and mark their differentiation with conventional banks. This specification of the financing model of Islamic financial institutions is in fact opposed to practices such as speculation, opportunistic behavior, application to interest rates, the cessation of debts and the prohibition of financial transactions to illicit sectors etc.

Despite the proven performance of Islamic banks, that of Senegal has real difficulties to meet the financing needs of Senegalese SMEs.

In this same context, MFIs that have the appropriate mechanisms for financing SMEs (Fall, 2010, 2011, Diagne and Fall, 2009), for their part encounter constraints related to the scarcity of significant resources to grant medium and medium-term financing long terms. Thus, the possibilities of complementarity

[1] The Islamic Bank of Senegal is the first and up to now the only Islamic Bank in Senegal that officially offers Islamic finance products and services. It is created on February 22, 1983 following the protocol agreement of 1981 between the former president of the Republic of Senegal Mr. Abdou DIOUF and the Prince Mohamed Fayçal Al Saoud, president at the time of the banking group Dar Al Maal Al Islami (DMI).

between the Islamic Bank of Senegal and MFIs could be a solution to such a situation of under-financing SMEs.

The financing needs of Senegalese SMEs are estimated at more than 500 billion FCFA (Diakhaté et al, 2014). This results from the exclusion of the majority of SMEs by Senegal's conventional financial and banking system.

Indeed, according to Mayoukou (1996), SMEs are underfunded. The under-financing of SMEs is aggravated by the fact that the financial system is very precarious in terms of accessibility, efficiency and profitability vis-à-vis the latter. In addition, the financial environment of Senegal is composed in its entirety by banking institutions that are active in financing formal projects and MFIs that conduct semi-formal intermediation to serve the population of modest income. Therefore, it is noted the importance of accompanying the mesoactivity composed in its majority by SMEs. The constraints on the financing of SMEs are intensifying more and more because of the lack of a financing model that effectively meets their investment needs.

Most of the resources collected by MFIs are short-term deposits, which considerably limits their transformation potential (Diagne and Fall 2009, Lelart 2005, Kauffmann 2005, Nsabimana 2004). From this it follows that the banking sector is limited by its approaches and that of microfinance by its weak financing capacities.

Thus, the synergy of actions between the Islamic Bank and the microfinance sector would be profitable for both financial industries and would increase the comparative advantages of each intermediary. This partnership, in addition to its positive impact on SMEs, would have made it possible to broaden financial intermediation. It affects transaction costs, risk management and the volume of credit offered in the medium and long term. This would have an influence on the financing of vulnerable microentrepreneurs long since excluded from the traditional financial system. Likewise, it would promote the financial and social inclusion of SMEs.

This paper is structured as follows: The first section presents the links between traditional banks and microfinance institutions. The second section analyzes the financing of SMEs by the Islamic bank. The third section is dedicated to the financing of SMEs by microfinance institutions. The fourth section studies the complementarity between Islamic banking and microfinance institutions in Senegal. The fifth and final section is devoted to the conclusion.

I. Links banks and microfinance institutions

During this decade, many research studies have found a crucial utility of the complementarity between the banking sector and that of microfinance institutions, in the process of participating in the inclusive finance of mesoactivity (Fall, 2011; Fall, 2009). This coordination emanating from both sectors has, more than ever before, contributed to the financial inclusion of the vulnerable population excluded from the banking system, for lack of material guarantees. This model of efficient financing, has not left behind, the need for financing of SMEs which for years have felt a neglect by financial structures both on the side of conventional banking institutions than on the side of MFIs (Diagne et Fall, 2009). This niche of growth, has experienced a vacuum related to the lack of financial sector appropriate to their criteria for applying

for funding. If the banking sector rhythms with affluent clients (Eber, 2000) and microfinance with micro-entrepreneurs with modest incomes (Rutherford, 2002), it would probably be wise, in a context of growth in microfinance activities which is, however, accompanied by a recurrence of financial crises, highlighting a financing model based on the complementarity between Islamic Bank and MFI. This synergy of actions goes in fact, filling this architectural void of the segment of the mesoactivity composed mostly by SMEs.

1. An institutional vision of complementarity

An empirical example that can demonstrate the complementarity between the banking sector and that of MFIs can be understood in an appropriate framework of analysis with the theory of the firm elaborated by Aoki (1986, 1988). It is apparently argued that the theory of the firm Aoki J can give us an example of a convincing model of coordination between two distinct institutional sectors.

Indeed, Aoki, to elaborate the model, was based on two firms; that which has purely American characteristics noted firm A and that Japanese, noted firm J. Its analysis can perfectly be applied to justify the partnership relationship between the formal banks, whose mission is to finance the rich populations, and the MFIs that have to serve customers excluded from the banking system.

We develop a simplistic analysis that compares the banks, which we consider to be the firm A and those of the microfinance structures that we note here firm J, in order to justify the parameters of complementarity while emphasizing the fact that each financial institution is more active in its intervention community. We will use these terms throughout this sub-section to designate either the banks for firm A and microfinance institutions (MFIs) for firm J.

In this perspective of analysis, Aoki compares American and Japanese methods, in terms of organization of work in workshops, and the relationship of coordination of activities between workshops, in a context of external shocks.

The relationship between firm A and company J will focus on an objective analysis of the information and organization of these companies, (formal banks and MFIs).

At the level of firm A, the information is totally centralized and the control is done in a hierarchical manner, whereas in firm J it is totally decentralized and the control is carried out in a horizontal way.

Indeed, in the banking structure, all tasks are focused on a well-defined model, while in the microfinance sector, tasks are specific and not standardized, because they can change their relationship depending on the environment or the contract with a third party.

Based on the hypothesis of Aoki and the logic that governs the intermediation of banking and microfinance, we can deduce that the intermediation of the bank is based on standard tools, such is not the case, the case for the MFI. The latter conducts a specified financial intermediation based on more flexible tools.

These intermediation tools may change according to the credit agreement with the third party or according to the geographic environment of the customers. It seems appropriate in this context, that the first element of analysis is based on the parallel that we seek to establish.

As we have seen, the bank sets up standard mechanisms that favor centralized coordination, because the tasks are precise and decision-making is easier as in the case of firm A, unlike the MFI, whose This coordination revolves around several decisions and, however, more difficult to define.

This, once again, allows us to say that the MFI community is more volatile than the banking community, since the nature of the contracts is not standardized. In addition, the specialization of tasks is all the more specific in the banking business, which highlights the easy hierarchical management, unlike microfinance institutions (MFIs). For the latter, the concept of learning takes the lead on the notion of specialization, which calls for horizontal coordination.

2. Complementarity at Aoki: a specialization and learning perspective

At this level of analysis, the Aoki study highlights the level of specialization and the learning aspect in firms A (banks) and J (IMF). The service offering schedule in the bank (firm-A) is based more on the specialization, whereas at the same time, in the MFI (firm-J), it focuses more on the learning aspect in the bank within the team. In this respect, it is particularly important to grasp this opposition that is made between the specialization that is done within the bank, and the learning that is done at the level of the MFIs, hence the firms A and J, to make the simplified representation of these intermediation structures.

Indeed, in the firm A d'Aoki (1986, 1988), the specialization of the workers is very crucial. The role of each worker is defined in advance on the basis of a collective agreement. The employee has a very specified but limited knowledge in the bank (Firm-A). This means that the workforce or the know-how inside firm A is not very rotational. This shows us that in case of dismissal or resignation of a member of the staff, the firm A will find without difficulty, on the job market, another agent with all the skills required to manage the same position, d. as much as the tasks to be managed are in reality standardized. It may be remembered that, it is the same aspects that condition the working method of the banking structure, where the specialization of tasks is very advanced, unlike the firm J (IMF), where the specialization is broader and complex. In reality, the mission or role of each employee is not specified and the rotation of workers within firm J (IMF) is more dynamic.

In MFIs, the competence of their employees relies much more on learning than on skills. What makes the agents of the microfinance institutions, is nothing other than their seniority and the experience accumulated in the firm-J (IMF). This experience gives them a big advantage over new recruits or those waiting to get a job in microfinance organizations. In addition, once the employment contract is broken with the employee, the firm J will have all the difficulties to find an agent able to manage exactly the same functions. Such a situation can be found in Senegal, in small microfinance institutions for example: Djolof Mutual Savings and Credit (DJOMEC), Women, Development, Enterprise in Africa (FDEA), FIDES etc.

For large microfinance institutions like CMS, ACEP, UM-PAMECAS and U-IMCEC, their staffs have advanced and relatively specialized training levels.

Thus, it is important to recognize that in poorly developed microfinance institutions, the burden of staff weighs heavily, as staff are always paid from the profit margin of the structure. This margin obtained from the transformation of customer deposits, usually in the short term, requires prudent and valuable management. Salary management of staff whose workforce can be rotated, will participate very well in minimizing the expenses of the firm J (IMF).

Therefore, a fairly specialized and standardized supply of labor will not be adequate for poorly mature MFIs, since an employee is able to combine and perform functions (file editing, accounting, portfolio

management). ...) with an affordable salary cost. This probably justifies the fact that the tasks performed are based on learning within the MFI and not on specialization.

Beyond the learning aspect in the firm J (microfinance), he notes that the relationship with the client is particular and more familiar in the MFI than in the banking structure. One can deduce from this situation that losing an employee in firm J is a source of blockage. Conversely, such a situation would have less fatal consequences in the bank, because the new recruit will have a platform of information related to the management of his portfolio (number of clients, projects in progress, funds granted, level solvency or customer score, outstanding receivables, etc.). This stored information is due to the fact that the clientele of firm A (bank), in the process of applying for a loan, must at least, for a reliability of its project, give a panoply of official files related to the activities, this which is not the responsibility of MFI clients.

3. Complementarity at Aoki: A Horizontal Coordination Lens

After comparing coordination from the perspective of specialization versus learning, author Aoki also observed the impact of organizational structuring of firms from a governance perspective. For the bank, as we have seen, task-based specialization is crucial. This means that the transmission of information to employees depends on their superiors or the general management. Conversely to MFIs (firm J) where information is decentralized and functions less austere. In practice, MFI workers are much more daring in responding to the risks associated with exogenous shocks.

In fact, we can say that in the firm A (bank), the credit relationship with customers is based on formal documents. Such a relationship enables the banker to prevent different types of risk (selection risk, credit risk, etc.), according to the criteria established by supervisors or senior management.

In addition, the bank employee does not have all the freedom to make decisions in a personal way because, in the firm A, such decision-making is centralized. It comes from an order or superior hierarchy, to guide the banker obviously. It should be noted, however, that the bank must operate with prudential rules dictated by the Central Bank: example for the case of UEMOA, it is the BCEAO that dictates the rules.

In addition, it should be noted that the client of the bank who moves away from these decisions, severe sanctions that may even lead to its exclusion, since the banker assumes he knows the reasons for the credit agreement, and that, by negligence, he did not want to respect them. The relationship between firm A and customers is assumed to be homogeneous and stable, which does not reflect the same criteria for the sphere of MFIs (Firm-J).

Thus, in the microfinance sector, the relationship with its customers is very heterogeneous. The clientele of microfinance is unstable because the ideology that drives it is the pursuit of profit at all costs. This vision leads them to engage in activities that are often diversified and risky, as they evolve in most cases in the informal sector. The case of SMEs in sub-Saharan Africa, in this case those of Senegal, can be a relevant illustration.

In this line of idea we can say that: "In contrast, in the microfinance sector, intermediation mechanisms based on trust, physical and cultural proximity, seem to fit with the financial logics in force in most countries. SMEs, which, we recall, have generally taken their sources in the informal world "(Diagne and Fall, 2009).

Starting from these remarks, we can deduce that the firm A, grants credits on the basis of tangible contracts. It can at any time, grasp its type of risk and as a precaution prescribe means of reimbursement or establish sanctions. This is far from the case of the firm J (IMF) which is active in a very unstable environment. In this way, the instability of their intervention environment is due, generally by the character of non-formal activities, but also, the inability of customers or microentrepreneurs, to provide official records and real guarantees, to justify their request credit. For this very reason, it is difficult for firm J to demand standardized standards and decisions, because in the microfinance community, uncertainty is high for lack of customer behavior.

In this wake, Servet (1996) pointed out that: "Sub-Saharan Africa is characterized by a dominant situation, not of risk, but of great uncertainty". Indeed, uncertainty is greater in the microfinance community (firm-J) than in the bank (firm A). This cause is often related to the inability to establish standardized standards. The high level of client uncertainty means that microfinance employees have more information about their portfolios than their line managers.

It is then to say, that in the firm A (bank), the information is available in database which is not the case of the MFIs (firm J). In the latter, the resignation or exclusion of an employee will always have consequences for firm J because his replacement will not have the same levels of information, for the good management of the portfolio.

What we retain in this analysis between the two firms A (bank) and J (IMF), is that, the opportunities for information storage and formalization of the documents of the credit agreement are more important in the firm A than that J. In the latter, employee decision-making and the decentralization of credit information are painless, since loan officers have superior information about their clients compared to their clients leaders.

In such an illustration, it is very remarkable to qualify our remarks, given the trend of the microfinance sector. In Senegal, several microfinance institutions are moving towards the formal sector. However, our analysis based on the logic of Aoki (1986, 1988) gives us a very clear vision in each firm. The organizational structures (banks and MFIs) are each more efficient in their usual environment. The banking environment, which is considered homogeneous and stable, works better with the vertical transmission of information. On the other hand, the microfinance community, which is young and heterogeneous due to the lack of informal clients, works very well with the horizontal transmission of information.

The specificity of the two firms A (Bank) and J (IMF) and their role in the financial sector, give us every reason to say, that it results, a perfect complementarity between the two models of financing, and it is institutional because the existence of each financial structure in its environment justifies, in all rationality, the institutional organization that is in place.

I. Islamic Banks and SME Financing

After learning about the studies, which have focused on the behavior of traditional banks in the aftermath of the 2008 financial crisis, there have been real weaknesses in the traditional banking systems resulting from a governance failure (Mehdi Mili et al. al, 2014).

For this purpose, the financial theory tells us that the bad structuring of the market is the main cause that really and negatively affects the survival of commercial banks, as well as their different financing procedures. This is the result of a finance that is not completely ethical and social. With the effect of the subprime crisis the rules and laws that served as a benchmark for the financial world (Roux, 2012) were upset. So, the question arises acutely, why Islamic finance institutionalized by Islamic Banks and insurance companies, it could not replace the so-called conventional finance in the process of inclusive and sustainable financing of SMEs?

For some, this new finance is more responsible, more social, closer to the real economy and SMEs. Thus, it is clear that Huet et al. (2014), Shaban et al. (2014), Shaban, Duygun, Fry (2016) mentioned, in view of the financing difficulties faced by SMEs, the usefulness of Islamic Banks in meeting the financing needs of this sector. Finally, they argue that such funding is in fact based on a fair sharing of the sharing of the main risks and profits. In the same vein, Serhal (2007) and Nienhaus (2011) advocated the intervention of Islamic banks in the effective resolution of SME financing problems. This is particularly because Islamic banks are more participative and may be an attractive solution for these SMEs, whose investment needs are sometimes too risky for traditional financial institutions.

Thus, if we refer to the Islamic economic theory that aims at the establishment of an economic and social order (Causse-Broquet, 2007), it is strictly forbidden that the classic debt contracts are authorized, because they appeal to interest. Contracts or instruments in Islamic finance therefore make it possible to finance operations for clients and entrepreneurs such as: Murabahah, property (Salam), industrial operations (Istina'a), managing leases (Ijara) or the Moudharaba. The latter is the contract that makes it possible to share profits and risks more equitably.

That said, the argument about the equitable sharing of profit and loss sharing, raises a very difficult angle of debate.

In this posture of idea, Jouaber and Mehri (2011) underline the thesis of asymmetric information, in the absence of choosing the contract Moudharaba (PPP). They explain that the SME that encounters serious difficulties related to anti-selection, moral hazard, or problems related to agency theory, prefers other types of contracts than the Moudharaba (PPP). In addition, based on the principles of profit-and-loss sharing, Khalil, Rickwood, and Murinde (2002) demonstrated agency difficulties. They had given rise to more specific remarks about the problems related to the agency[2] and the Moudharaba contract. For them, the anti-selection that results from the opacity of information upstream between the Islamic financial institution and the SME, can be summarized as (Lack of experience, talent problem, medium or long-term project sustainability, etc.).

Anti-selection and moral hazard constitute, in particular, the elements that perfectly challenge the ideology of sharing profits and losses. Contrary to the vision of the purely PPP contract, Khan (1995) is known to have stated the problem of using PPP contracts, due to the lack of demand factors. Beyond his thesis on the

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[2] According to this theory, the company is an organization made up of a set of contracts that characterize it (between the company and the shareholders or the contributors of factors: capital, labor, etc.). The agency theory tries to define the forms of organization and the types of contracts likely to minimize agency costs: monitoring costs, loss of earnings linked to the very existence of the delegation.

evolution of risk aversion of entrepreneurs (SMEs) during their existence, it appears for him, that SMEs are more risk-averse. In fact, he suggests that when SMEs are created, they will be more risk-averse than they will be a few years later.

Thus, Khan allows himself from a reflection, to say that the SMEs who have just started their activities, are supposed to prefer the contract based on the PPP, while, those more experienced in terms of existence and activity, would prefer so-called mark-up contracts. Islamic financial institutions must generally avoid risks, and encourage start-up SMEs, who face high risk aversion, by offering them appropriate contracts for PPP financing. And for mature SMEs (in terms of management experience and seniority) to offer them mark-up contracts. In addition, Amrani (2012) needs to be mentioned alongside, which points to an unwavering commitment to financing models based on profit and loss sharing (PPP).

For the author, mark-up financing, led by Murabaha, was only conceived as a subsidiary solution. Indeed, Amrani deduced from his research that several arguments of Islamic economic theory were advanced to justify this posture.

In summary, the idea of the contract based on the PPP model has always prevailed for some authors who claimed the superiority of PPP contracts, both on conventional financing and other Sharia-compliant[3] financing.

But, with the evolution of time, the diversity and the complexity of the financing of the entrepreneur to whom, one can not evaluate, in a considerable way its risks, the solutions or the choices of the contracts are diversified.

III. Microfinance institutions and SME financing

Since the emergence of the microfinance sector, the microfinance sector has experienced remarkable growth in its participation in the financing of the vulnerable population layer. The similarity between microfinance and microcredit means that, despite the difference between these two notions, one is used instead of the other. Obviously, we can not understand microcredit without referring to the so-called informal finance that preceded it, but also without referring to microfinance, which continues to show its opportunities (Lelart, 2007).

Given the situation, microfinance institutions are involved in providing financial services and products to a large part of the working population with modest incomes. This contribution of MFIs to various levels and sectors of the Senegalese economy, participate very well in economic growth and in reducing the vulnerability of microentrepreneurs. On the basis of this, the role of microfinance can not simply be summarized as helping the poor.

The reduction of poverty is most often accompanied by initiatives aimed at facilitating the financing of microentrepreneurs, particularly SMEs, or effective policies, for the informal sector. The debate on the efficiency and effectiveness of microfinance financing for SMEs is, from the outset, a limitless concern for

[3] Expression which designates conformity to the Koranic law.

public decision-makers, private promoters, partners and so on. While much theoretical work has focused on the close relationship between microfinance and financing the poor, there is little work that focuses on the relationship between microfinance and SME finance. It is within this framework that the updated study of this section must be understood.

According to Lefilleur (2008), the theoretical justification for the viability of microfinance structures can be explained by a close relationship between borrowers (SMEs) and lenders (MFIs). In this respect, it is particularly important for him that the reliability of the guarantee methods is based on the solidarity of the group and the interdependence of the different members.

In fact, his studies have also emphasized the specificity of MFIs, which are certainly the few structures able to access and finance the informal sector. The latter is full of a potentially uncompetitive potential market, made up of almost all SMEs (ANSD / ENPME, 2013).

Like all research developed, these first show the main limit of MFIs in the field of intervention of SMEs. This limit, however, linked to a regulation that is often insufficient, lies in their inability to mobilize sufficient resources, which consequently reduces their intervention volumes and confines them to personal loans and micro-enterprises.

In this vein, Jégourel (2008) focuses on differentiating the intervention of microfinance structures in developing and industrialized countries. For him, in developing countries, microfinance tends to reduce poverty and increasingly empower socially excluded individuals through the traditional financial system, while in highly industrialized countries it tends to facilitate a priori, the creation of very small businesses by people in a personal and social situation often difficult, lack of resources and support.

From another angle, Tioumagneng T. (2011), highlights the important role of microfinance in facilitating the financing of SMEs. The author explains that it is because of the presence of MFIs in particular, that SMEs now have more and more interlocutors (in addition to commercial banks), when they are in demand for credits, from financial institutions. In addition, he emphasizes in his remarks, that in view of the evolution of the financial environment especially in Central Africa, commercial banks seem to have lost power vis-à-vis SMEs in their credit relationship.

It follows from his remarks that banks are no longer the only financial structures to offer credit to SMEs. Other intermediaries, such as microfinance institutions, have become effective competitors in this area. SME financing by MFIs has become less constraining than that of traditional banks (Wamba, 2002).

Founanou and Ratsimalahelo (2011) examined at this stage the failure of a significant number of SMEs in sub-Saharan Africa. They deduce from their findings that the failure is due to the weak relationship that exists between banks and SMEs. For their part, they propose that the state should help SMEs to benefit from more sustainable financing conditions from retail banks or microfinance institutions, while offering guarantees that accompany these loans.

Similarly, Sandrine (2012) points out in the context of the WAEMU zone that MFIs have experienced remarkable growth in recent decades. To this end, their mission may be even if, as Sandrine proposes, to overcome the difficulties encountered by development banks, to finally ensure the financing of SMEs.

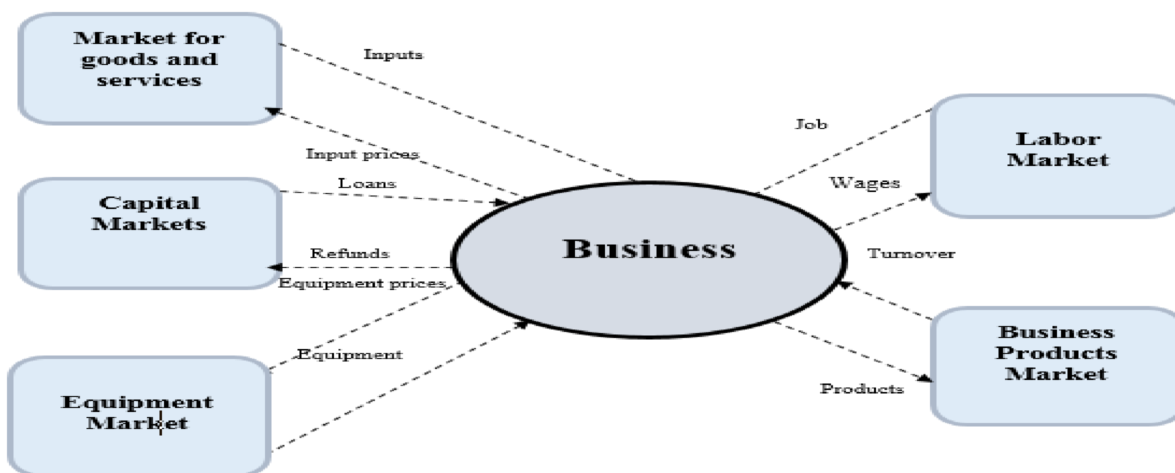
In addition, as part of the analysis of their main mission to the needs of SMEs, microfinance institutions promote the mobilization of savings in rural and urban areas in order to support the informal sector,

provider of employment. With this in mind, MFIs have been able to serve a significant share of the informal sector despite the reluctance of banks in the area. SMEs in the informal sector have achieved very beneficial financial relations with MFIs. The latter have put in place in their financing process, effective management mechanisms, including the joint guarantee, to circumvent information asymmetry problems.
In summary, it follows that, in the context of UEMOA, MFIs provide remarkable, inclusive and unsustainable funding opportunities to SMEs. The latter are excluded from the traditional financial system, lack of binding regulations from the Central Bank of West African States (BCEAO).
Admittedly, we can say that the studies of these authors, focused less, on the theoretical justification of the relationship of financing of SMEs in the long term.
In a context of severe financial crisis that has further constrained the financing of SMEs in Africa, other financing models that are closer to the reality of sub-Saharan African countries need to be used. To resolve this situation of under-financing SMEs, a new model based on co-financing or complementarity between banking and microfinance structures has been proposed by authors such as Diagne and Fall (2009) with the aim of reducing financing difficulties, that SMEs encounter.

IV. Complementarity Islamic banking and microfinance institutions

In this last apprehension, the understanding and the definition diverge according to the use or the approach by the currents of thought. Indeed, it seems that, in general, complementarity relations exist throughout the process linking all companies to each other, from raw materials (inputs) upstream to the final consumer (outputs), downstream.

<u>Figure 1</u>: Complementary links between the company and the different types of markets



<u>Source</u>: Author.

The analysis of the diagram above, allows us to grasp the idea of the complementarity that exists between the company, as a production structure, compared to the different types of markets that surround it upstream and downstream. In fact, the interest of this scheme is to highlight the various factors necessary for the

production activity, and marketing of the company's products (labor, raw materials, capital, productive equipment, products of the company etc.).

It shows us that the activity of the company, obeys a systemic regulation but also of interconnection with the markets, while being the central nucleus of the economic system. It distributes income by the income effect (DY = DI / s) [4] according to the Keynesian perspective.

In addition, Joel de Rosnay (1975) defines the systemic approach of the enterprise as a set of elements in dynamic interactions organized in order to reach a goal. On this subject, it would no doubt be instructive to define, first of all, the concept of complementarity.

Indeed, the complementarity between Islamic Bank and MFI is at the heart of the debate that arises sharply in the financing of activities of developing countries such as Senegal.

In addition, this current debate on the financing of local activities and those of SMEs, in a specific way, aims to solve the difficulties related to the lack of funding of this layer of Senegalese mesoactivity.

Therefore, we understand that the articulation between the Islamic banking system and MFIs for the financing of SMEs, is based on the one hand on the financial discrimination of commercial banking structures in Senegal in relation to the financial needs of SMEs. And on the other hand the lack of significant resources of MFIs to cope with the demand of microentrepreneurs.

Likewise, it depends on the proven competence of MFIs to efficiently offer financing to non-bankable SMEs, which are mostly in the informal sector [5]in Senegal. In a similar way the Islamic Bank has developed quite quickly new financial tools more adapted to the needs of SMEs (leasing, solidarity savings, sharing of profits and losses, socially responsible investment, ethical and Islamic funds, insurance "*takaful*" etc.). This relationship of Islamic Bank / MFI complementarity seems to show more support, as well as social performance and less risk for SMEs.

In this context, it is essential to retain certain conditions for the definition of the link between the Islamic Bank and the MFIs. Indeed, the first condition focuses on the structures or elements that constitute this relationship, the second condition is the object or the mission of this relationship, and to finish the third is related to the particular relationship that animates the structures put in relation (Fall, 2010).

These three conditions which govern the articulation between the two financial industries, allow us to define complementarity as: the various coordinations and articulations between the Islamic Bank of Senegal and the MFIs that favor the expansion of the Senegalese financial intermediation system. These articulations will have a positive impact on increasing the financial inclusion of SMEs.

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[4] In Harrod-Domar's Keynesian model of economic growth, investment has a key role in wealth creation in a country. This model stipulates that the investment acts doubly: on the one hand on the capacity of supply and on the other hand on the demand of the economy by a multiplier effect. More explicitly, companies generate income in their production process (purchase of inputs, fixed capital, payment of wages, etc.). In this equation DY is the change in demand or income, DI is the change in investment and S is the propensity to save.

[5] The informal sector can be broadly characterized as all units of production of goods or services of a commercial nature with the objective of creating paid employment. In this way, Chouchane-Verdier (2001) defines it as a disorganized, unofficial and unsustainable sector ...

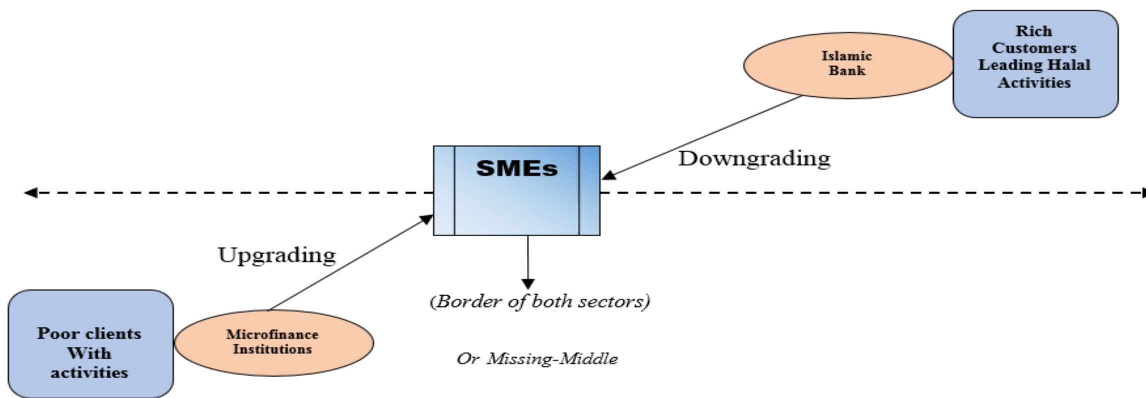
Once again, this means that it is appropriate and useful to use the different relative advantages of the Islamic Bank and the microfinance industry to promote the financing of the vulnerable population, long excluded from the traditional financial system.
In summary, this definition implies in fact that the Islamic banking institution, like the microfinance sector, conducts intermediation activities, based on microfinance operations.
This is why the complementarity between Islamic Bank and MFI is based on the principle of sharing the potential risks, losses and profits resulting from the financing of SMEs in Senegal. However, this funding model makes it possible to spread out the risks more effectively and not simply blame SMEs for all the risks taken when applying for loans.

1. Islamic Bank Partnership and Microfinance Institutions

Studies in isolation, between Islamic Banks and SME financing, have revealed that the theory of counterparty risks, more specifically related to the opacity of information, is the cause of chronic under-financing of SMEs (Shaban, Duygun , Fry, 2016).
Even if, the opacity of information participates considerably in the development and the justification of the complementarity between banking sector and that of the MFIs, it only partially explained this new theory of financing (Fall, 2010a). The latter mentioned, in view of the extent of these increasingly overlapping financial structures and their evolution in the financial sphere, that banks are turning to microfinance and microfinance institutions in turn, to finance large-scale projects, previously intended for the banking sector. Given this, it will be foolish for Fall (2010a) to simply analyze this complementarity from the angle of the sole cause related to information problems.
In addition, it points out that, as this articulation tends toward a standardization of funding mechanisms, it is reasonable to include other elements, such as the theory of barriers [6] to entry, which its study will make possible justify with relevance, this relationship of complementarity.
In this perspective, we are witnessing a convergence of the two sectors towards the border that suffers until now, financing needs. To illustrate the descent in range of the Islamic Bank of Senegal (BIS) and the upscaling of MFIs, we propose the diagram below.

Figure 2: Point of convergence of the two financial sectors (BIS and IMF)

[6] The diversity of barriers between the banking and microfinance industries justifies the level of integration of these two financial sectors. For Fall (2010), strong barriers to entry and exit emphasize the distinction between the banking and microfinance industry and thus reinforce the idea of two financial institutions with different missions. In other words, the utility of the bank to finance SMEs can justify its willingness to go downmarket to serve this niche. On the other hand, the high financing needs of some SME clients of the MFI justifies the upscaling of the MFI to compete with the banking sector in order to preserve its clientele. For more information on the theory of barriers to entry, review these authors Bain (1956), Stigler (1968), Demsetz (1982).



Source: Author.

The financing of mesoactivity is one of the effective means to fight the banking exclusion of SMEs in Senegal. Indeed, in the desire to significantly affect the financing of microentrepreneurs, the idea of financial inclusion is felt. This financial inclusion is defined by Galor and Zeira (1993), Aghion and Bolton (1997) as a majority of economic agents, poor or low-income, with access to viable and sustainable financial services.

The dynamic of financial inclusion of SMEs is that the Islamic Bank of Senegal and the MFIs both converge, towards the middle where the activities are almost managed by the SMEs. The response to the financial needs of these microentrepreneurs makes it possible to take into account the "missing link" (Barro 2005, Kauffmann 2005) or the "Missing middle" (Sanders and Wegener 2006).

Next, we must first mention Nsabimana (2009) who shows the importance of banking structures, to enter microfinance. The author puts forward the idea that, the commitment of the banks to go down in range, could participate in the enlargement of the financial sector and moreover, to favor the access to the financing of a large part of the population.

Indeed, for Nsabimana, the downgrading of banks, has for mission, to finance the customers who benefited since times, services provided by the MFIs. In addition, this downscaling can generate certain consequences, namely: risk of drifting from the banking mission, professionalisation of management, and improvement of the financing of microfinance institutions. In this sense, Fall (2011), on the other hand, showed that MFIs that are active in the financing of large SMEs must use new techniques and methods to finally reach this layer of SMEs.

These MFIs, as they manage to meet the needs of this niche, will stand out from the activity of banking structures, which establishes competition between the banking sector and that of microfinance.

In addition to the competition between these two intermediation sectors, the considerable increase in the microfinance sector's clientele has not stopped stimulating banking institutions (Jenkins, 2000). This clientele, made up mostly of microentrepreneurs, gave a positive image to formal lenders.

This shows that microentrepreneurs (SME) are real potential reliable and able to repay their loans in the required time.

In addition to this situation, Alcorn (2005) argued that banks are motivated to share MFI clients for two reasons:

- ✓ the increase in stiff competition that continues to exist in the banking sector (Bell et al, 2002, Westley, 2006) and which, however, reduces their profit margin and;
- ✓ pressures from public authorities to facilitate financing relations between banks and a part of the poor population.

With these facts, the financial inclusion of Senegal's SMEs can only be ensured by the link between BIS and MFI.

This complementarity could, in the norms, promote, apart from financial inclusion, a social inclusion of these entrepreneurs. This new financial system, adapted in the context of sub-Saharan Africa, can be translated in two ways:

- ✓ financial partnership;
- ✓ and institutional intermediation (Nsabimana, 2004).

Indeed, this synergy of actions can significantly reduce the distance of information between financial institutions and SMEs.

Despite the scanty review, Tioumagneng (2012) highlighted in his research work the concept of complementarity between the bank and other financial intermediaries. Starting from this process, he conceives that the partnerships observed in recent years, either between the banks themselves, or between them and other financial structures, such as insurance companies ("bancassurance"), strengthen this logic cooperation with customers. The objective of such an external growth modality, in fact, favors an increase in revenues and contributes significantly to the reduction of the price of bank credit, which is essential for the entry or retention of SMEs in their financing relationships with the financial sector.

From another angle, Fall (2009a) believes that the fact that MFIs are profitable gives them an opportunity to occupy a significant place in the formal financial system.

Some of these microfinance structures, for example, choose to make direct entry into the formal market, and others, in turn, prefer to establish cooperative relationships with banks. Co-operation finally brings into play mutually beneficial relationships (Richardson, 1972).

2. Migration Product: An Effective Complementarity Option Between Islamic Bank and Microfinance Institutions

In the logic of cooperation between banks and MFIs, Fall (2011) emphasizes that the product migration can be, an eloquent and beneficial example for these financial institutions, but also an essential financing model for SMEs. This vision of complementarity between the two sectors is defined as a profitable agreement between banking institutions and MFIs through which, MFIs are content to migrate, as and when, some SME customers to its banking partner.

Such a situation arises when the SME is in a phase of evolution and of need of financing, which exceeds the capacities of self-financing of the MFIs.

In addition, the bank, aware of this advantage, guarantees to cooperate and refinance the microfinance institution. This relationship does not justify the SME being the exclusive client of the bank with the idea of the term "Migration". But on the other hand, it highlights the change of scale (level of need and

financing) of SMEs. This migration is done progressively throughout the process of financing SMEs compared to their stage of evolution situation (micro level then meso level to reach macro level).

The SME therefore remains the client of the microfinance organization, but, for reasons of need for financing, it nevertheless calls on the banking institution. The bank / SME relationship is then directly or through the MFI. It is tempting to conclude that, in this case, the SME becomes a full-fledged client of the commercial bank. Such a situation can be realized, if the microfinance institution can no longer implement, a financial strategy adequate to the needs of the latter. The following illustration of Fall (2011) is a convincing case that the complementarity between these financial structures is an effective way to respond to the lack of financial resources of MFIs and the high financing needs of SMEs: "Agreements between Association for the Promotion and Support of Micro-Enterprise Development (PADME) and ECOBANK, and between the Agency for Promotion and Support to Small and Medium Enterprises (PAPME) and BOA in Benin, show that the MFI is committed to migrating some SME customers who reach a size funding critique. When the clientele (SME) reaches a critical threshold of credit demand compared to the long-term resources of the MFIs, the latter, in order to keep this clientele, want at all costs to establish a strategic relationship with the banks in order to be able to keep it. The mission of the "Product Migration" is to save the time of the MFI or to obtain a sufficient time to acquire an important financial and institutional level for the creation of an "ad hoc" institution ready to meet the needs of the MFIs. SMEs that currently exceed the thirty million CFA francs mark. To this end, the financial partnership between the bank and the MFI can be very efficient and mutually beneficial for both financial sectors.

As far as the microfinance institution is concerned, losing its core clientele for which it has been the main source of support and financing for the benefit of the banks would be irrational. On the side of the SME, the fact of migrating to the bank without the intermediary of the MFI, submits it to the same financing conditions as the usual clientele of the bank.

Thus, the two situations that are necessary for SMEs are:

• Establish direct relations with the bank and submit to the demands of the banking sector that will be costly, given the cost of selection related to ex-ante, on-going and ex-post information;

• Continue to maintain funding relationships with the MFI, which can provide credit at lower costs to banks.

In the framework of the "Migration Product" agreement, the SME is content to stay with the microfinance institution, to finance its critical size. Such financing will be through the guarantee of the MFI, through its account held with the bank concerned. In case of default of payment by the SME, the bank structure wants to debit the account of the MFI.

The "Migration Product" can be an advantage for the bank, the MFI and the SME, because with this type of contract, the SME will be able to obtain flexible credit conditions adapted to its survival. It will expose itself less to the costs of bank credit which are in fact very expensive.

From the bank's point of view, it sees that its management costs will be minimized, as well as its risks of default related to asymmetric information (adverse selection, moral hazard ...), since the costs of selection , monitoring and incentive to pay are the responsibility of the MFI. The latter, is committed to retain its customers (SMEs) and is offered more and more refinancing benefits, if it manages to honor its commitments vis-à-vis the bank. This contract can play a crucial role.

In fact, it seems more efficient in terms of incentives to repay credit than the direct relationship between banks and SMEs. In turn, when the SME has a direct relationship with the bank, she can choose to default strategically if she is a bad payer, the sanction of his actions remains only on the banking sector. The demand for credit allows it to solicit the microfinance sector where it can continue to build credit relationships. While in the product migration contract, it is committed to both sectors. Once the SME knows the risk of strategic default, it knows that it runs the risk of double exclusion from the two financial sectors.

Conclusion

The complementarity between the Islamic Bank of Senegal and the microfinance institutions is due to the fact that both Islamic banks and MFIs can not, in isolation, effectively finance Senegalese SMEs that make up the sector of mesoactivity. Currently, the various barriers that served as borders between the Islamic Bank and microfinance, are shrinking more and more with the changing needs, the socio-economic context but also, the extent that takes the Senegalese informal sector. Thus, to counter the financing difficulties and the non-banking of microentrepreneurs, in this case SMEs, the complementarity between the banking sector and that of MFIs, is presented as an effective solution (Fall, 2011, Nsabimana, 2009; Diagne and Fall, 2009).

The financing of mesoactivity makes it possible to reduce extreme poverty and give these job promoters the chance to enter the formal financial sector.

Such inclusive financing must be through the support of MFIs, who on their part must increase funding opportunities or offer other initiatives to SME clients, in order to enable them to integrate into the financial circuits formal, hence the Upgrading phenomenon of MFIs (Christen 2001, Porteous, 2006).

On the side of the Islamic banking institution, its mission will be to go downmarket, in order to reach the micro-entrepreneurs with modest incomes: this is called the Downgrading phenomenon (Lopez and Rhyne, 2003, Clarke and al 2005, Segrado 2005, Westley 2006, Young and Drake 2005, Delfiner and Peron 2007). This need for SME financing once realized, makes it possible to achieve the desire for financial inclusion which is a necessary element for the reduction of poverty and financial discrimination (World Bank, 2014).

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