

ISLAMIC CAPITAL MARKET PRODUCTS IN POST REVOLUTION COUNTRIES: CASE OF TUNISIA

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ABSTRACT

This paper gives a discussion about the Islamic capital market products and its possible role to promote economy and foster financial stability to a post revolution country such Tunisia. The Islamic financial system as a part of the whole Islamic capital market is playing important roles in offering original modes of financing to both individuals and businesses. That's why we are asking about the possibility to develop an Islamic capital market which will contribute to come out the economic difficulties of this country. This paper can be thought of as an indicator about the contribution of Islamic capital market products in promoting post revolution countries economies. To my knowledge it's the first paper treating this problematic in order to give useful reflections to the interested in this domain of Islamic finance in these specific regions known by their revolutions climates.

Keywords: Islamic capital market products, Sukuks, Post revolution country.

1. INTRODUCTION

The number of Islamic banks is growing continuously through the presence of these institutions all over the world. It's a domain relatively recent in comparison of the conventional financial institutions. Understanding the Islamic banking activity is being a concern to both academic and professional. The occidental countries are increasingly interested to this industry through the opening of Islamic windows in several well known conventional financial institutions. The resistance of Islamic banks during the financial crisis was also determinant to push researchers to know more about this financial sector. Moreover Islamic financial institutions are pretending operating with respect to the Islamic religion principles. These values are in favor of developing morality and ethics in the society through their financing activities.

In the same time several Arabic countries have witnessed revolutions against injustice and bad social and economic conditions. After these popular movements the concerned countries are in a preliminary period which aims to build solid economy and provide stability to their financial systems.

This paper gives a discussion about the possible role of an Islamic capital market product such Sukuks in promoting economy and providing alternative to traditional modes of financing. The study is concentrating in a country having special status which Tunisia. This North African country has restricted experience in Islamic finance. That's why it's useful to know the advantages of such orientation and the process of establishing this new industry.

The methodology is as follows: First we will present an overview about Islamic finance. Second we will investigate the historical of Islamic finance in Tunisia. After that we will give the necessary steps to establish this new financial product. Finally it's required to analyze the advantages associated with this new field in this particular period characterized by recent revolution and considered as crisis period.

2. OVERVIEW OF ISLAMIC FINANCE

The concept of Islamic finance includes two major activities which are Islamic banking and Islamic insurance called *Takaful*. These financial institutions are operating with respect to Islamic finance principles. As reported by Hassoune (2007) these principles are:

- Prohibition of *Riba*, Arabic noun which signify interest and usury. The Islamic bank gets its gain through profit mechanism. Money isn't considered as an asset in itself. That's why the Islamic bank's profit depends on the financed object and not in money value as practiced by conventional banks.
- Funded projects should be licit. There are some domains considered as prohibited such pork, alcoholic drinks...
- Profit and loss sharing (PLS): Islamic banks and their customers should share the profits and eventual loss. It's a risk distribution between each party participating in the transaction.
- Presence of a real object financed. Thus fictive purchases are prohibited and the transaction must have a material object. The consequence is a development of real economy.
- Interdiction of *Gharar*: it's the uncertainty which is qualified prohibited in the Islamic financial transactions.

The financial institutions operating with these principles are qualified as Islamic banks. In order to ensure respect of Islamic law principles in these institutions, Islamic banks must have a Shariah board to examine the compliance of the products with Islamic finance. Islamic banks are present in most countries with variable density. Several conventional banks have opened Islamic windows offering Islamic financial transactions. Others are totally converted to Islamic banks. These financial institutions are concentrated especially in Gulf countries and South-East Asia (Table 1).

Geographical Distribution of Islamic Banks / Region					
Regions / Year	Europe	Middle East	Asia	Africa	Total
2010	4	42	44	12	102
2009	6	48	54	20	128
2008	7	52	60	22	141
2007	7	49	54	20	130
2006	5	40	46	21	112
2005	4	39	39	22	104
2004	3	34	31	21	89
2003	2	29	27	21	79
2002	2	29	29	19	79
2001	2	28	27	17	74
2000	1	28	26	14	69
1999	1	23	12	5	41
1998	1	21	10	5	37
1997	1	16	10	4	31
1996	1	12	11	4	28
1995	0	11	11	5	27
1994	0	11	9	5	25
1993	0	10	7	5	22
1992	0	10	6	5	21
1991	0	10	5	4	19
1990	0	8	5	5	18

Table 1:
 -Geographical distribution of Islamic Banks/ Region-
 -Source : IBIS Report 2010-

The table above describes Islamic banks distribution around the world. It's clear that Islamic institutions are particularly operating in Middle East and Asia. However Africa region seems to be not enough familiarized with this new industry.

The presence of Islamic banks around the world is into two main forms:

- Countries with whole Islamic financial system: it's the case of Iran, Pakistan and Soudan. The use of conventional banking transactions is prohibited by law.
- Countries characterized by simultaneous presence of both Islamic and conventional banks: it's the case for example of Malaysia. We are speaking today about the originality of the Malaysian experience in Islamic finance. Total assets managed by Malaysian Islamic financial institutions have grown from 8% in 2007 to 20% in 2010. This indicator argues for rapid growth of this industry in Malaysia and in the East-Asia in general. We are asking about the development of Islamic finance in an African country like Tunisia and we will begin by an historical brief about Islamic finance in Tunisia.

3. BRIEF HISTORICAL ABOUT ISLAMIC FINANCE IN TUNISIA

In this section we present the historical of Islamic finance in Tunisia. This country has witnessed recently a popular revolution against injustice and bad social and economic conditions. As a consequence the climate has changed concerning political, economic and social aspects. That's why this section is divided in two parts: Islamic finance before revolution and after revolution.

3.1 BEFORE REVOLUTION

When we speak about the pre-revolution it's before 2011. Previous to this year Islamic finance hadn't effective role and the Islamic capital market products were restricted. However the first Islamic financial institution in Tunisia was established in 1983 and since this date we shall wait to 2010 to see the birth of the second Islamic bank. Moreover there was no regulatory framework dedicated to Islamic finance. Tunisian law contained texts allowing Islamic financial products; but unfortunately these laws were deleted. It's the case for example of *Wakf* and also *Salam*.

We present below the limited experience of the two Islamic banks operating in Tunisia.

3.1.1 AL-BARAKA BANK TUNISIA

This Islamic financial institution is a subsidiary of Al-Baraka Islamic Bank in Bahrain. It's entry in Tunisia was in 1983. It's an offshore bank which operates mainly with non residents. The bank has financed an important project called "Lac-Project" after its creation. This project belongs to the infrastructure industry: residences, buildings, centers... Till now this project witnesses about the favorable contribution of an Islamic bank in economic development.

Unluckily after this great role the activities of this bank were restricted. In fact law didn't allow offering all categories of Islamic financial products. Furthermore the agreement given to this Islamic financial institution limited its field to operate mainly with non residents. Concerning the operations with individuals the bank offers just withdrawal and payment. Hence there were no special Islamic contracts such *Mourabaha* or *Ijara* with individuals. The situation with corporate was rather better.

We notice the regulatory failure related to the development of Islamic finance by limiting their activities domain. We present below another case of the second Islamic bank in Tunisia called Zitouna Bank.

3.1.2 Zitouna Bank:

It's the second Islamic Bank in Tunisia. It was created recently in 2010. This financial institution is operating with both individuals and corporate. This specificity of being resident bank is an advantage in comparison with the first Islamic bank, Al Baraka Bank. However Zitouna Bank presented a disadvantage because one of their majorities shareholders was the gender of the ex president. This reality affected the reputation of the bank as an institution respecting the Islamic finance principles and Islam guidelines in general. Nowadays, and after the Tunisian revolution, the Tunisian state is the owner of the Equity majority of the bank. That's why the bank is acquiring more and more confidence in the Tunisian society. This perception change is an evidence of the evolution of Islamic capital market products before and after the revolution. In the same time we should notice that gaining more confidence must be prepared by more Islamic financial products. The respect of Chari'ah should be clear in the bank operations and in the behavior of both owner's bank and employees.

3.2 AFTER REVOLUTION

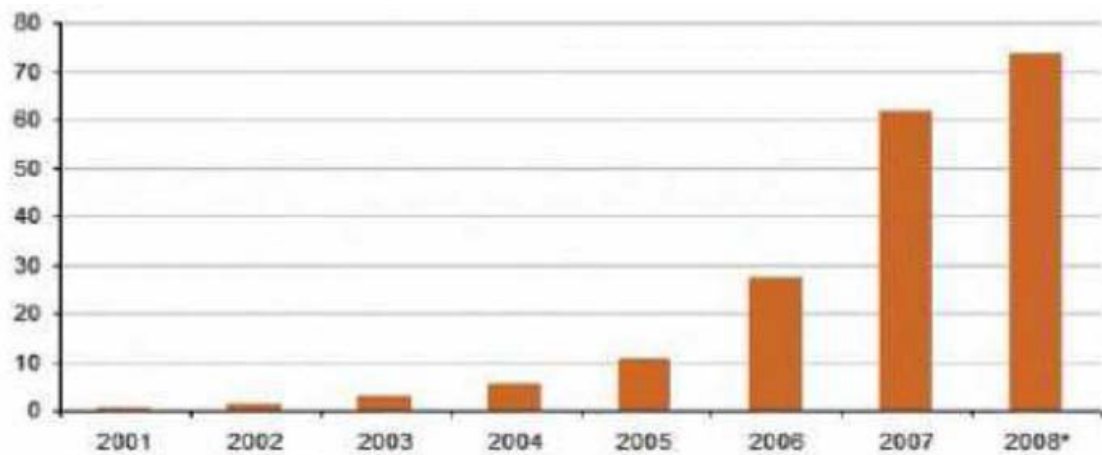
After the revolution we can notice radical change in the perception of Islamic finance. In fact we are speaking more about Islamic finance as a solution to the economic problems faced in Tunisia. After this revolt the economical situation is critical: many foreign companies have closed their doors, the unemployment degree is increasing especially in graduates of higher education. As a consequence it's a necessity to diversify and create others modes of financing to attract capitals and generate projects providing the necessities in economic and financial stability. In the other hand there are no enough qualified persons in the Islamic finance domain. That's why it was necessary to prepare competences in this industry through training programs for example. This role is now played by associations specialized in Islamic finance and which have as an objective to form high qualified pool of experts in this new field in Tunisia. The human capital development is now a preoccupation of both academic (such in the universities, associations...) and professionals in the financial institutions to familiarize people with Islamic finance concepts and practical aspects.

Unfortunately, till now there is no specific regulatory framework dedicated to Islamic finance. This gap is a handicap to develop this industry because we need to have specific laws organizing the Islamic financial institutions activities since it represents differences relative to conventional institutions. Among the Islamic financial products we find Sukuks which corresponds to Islamic bonds. This product is highly recommended since it gives the opportunity to have liquidity for professionals and also for countries; in this last case we speak about sovereign Sukuks. We will discuss below the possible role of this product in a post revolution country which is Tunisia.

4. Case of Sukuks in post revolution country: Tunisia

The Sukuks market is growing continuously in all over the world. As reported by Mc.Namara (2009) Islamic bonds market is present in many geographical areas such GCC countries, Malaysia, Pakistan... The issuance of Sukuks is being very active and it's promoting more and more Islamic capital markets around the world.

Unluckily this growth is not observed in North Africa capital markets. As we said before it's the consequence of unfavorable environment (regulatory, qualifications...). In the graphic below we can see the growth pace of this product during the last years.



Graph 1: Sukuks issuance in Billions Dollars
-Standards & Poor's Report (2009)-

This continuous increase is the consequence of benefits related to the issuance of such product. These advantages are associated to the specific structure of Islamic finance which prohibited Gharar (uncertainty) and requires the presence of tangible assets in each operation of an Islamic financial institution. Theses principles give more security and confidence to the investors. That's why, although the financial crisis, the development of capital market products such Sukuks is increasing and become more desired as an alternative to conventional

bonds. There are varieties of Sukuks categories such Mourabaha-Sukuks, Ijarah-Sukuks... This last type of Sukuks is well preferred and is obtaining greater place in the Islamic capital market (Sayed Ali 2005). It's a product accepted by Chari'ah comities and is playing important role in financing real projects by investors and Islamic financial institutions around the world. It's important to know the size of Sukuks market according to the underlying product. This information is given in the table below.

Ijarah	54.3%
Moucharaka	17.2%
Wakala	12.2%
Mourabaha	5.4%
Isitisnaa	5.4%
Moudharaba	4.5%
Salam	1%

-Table 2: Sukuks categories-
-Standards & Poor's Report (2008)-

We notice that Sukuks-Ijarah is largely the most important category in comparison to the others Sukuks products. In the other hand Sukuks issuance can be generated by government or public sectors. In this case we speak about sovereign Sukuks. We will present the necessary steps to issue theses capital market products in this post revolution country and the expected advantages.

4.1 Issuing Steps in Tunisia

As we said before there is no previous experience in Islamic finance in this country. That's why we must prepare carefully successful ground to guarantee good beginning of this new industry. We will discuss below different aspects, we believe important in developing this capital market product in general and in Tunisia in particular. We focused the followed part to regulatory framework and the role of central bank in such orientation.

4.1.1 Appropriate regulatory framework

Each industry, especially financial and banking activity, needs appropriate regulation to be efficiently developed. As said by Mc. Millen (2008) the acceleration of Sukuks issuance and the sophistication of theses financial products needs suitable legal infrastructure. Debates are often about creating either integrated regulatory text or an independent text dedicated to Islamic finance and Sukuks. In my opinion a full text devoted to Islamic finance is more appropriate for many reasons. First, this activity is different in its fundamentals and principles comparing to traditional finance. The new law should include clear definitions of each Islamic financial product. Moreover we should mention the specific clauses of contracts in Islamic jurisprudence. It's a step that aims to avoid each omission in future Islamic financial transactions. Second, developing an Islamic capital market needs specific standards applicable to Islamic finance industry. That's why we are in need to specify these values and their filed of application. For instance Islamic finance requires particular accounting standards, capital adequacy, Chari'ah quality control...

In the other hand creating Sukuks legislation requests some reflections about this new Islamic financial product from regular side. It's the case for example of SPV status and Sukuks insurance.

- SPV: the issuance of Sukuks is being more practical through specific structure called Special Purpose Vehicle (SPV). It's an intermediate between investors and Sukuks initiators. It must be an independent part to give more transparency and security to these financial transactions. The problem is to decide about the legal personality of this entity: limited company, joint stock Company... Discussing this problematic is the beginning of adequate regulatory framework of Sukuks. As a solution it can be qualified as a company with a special status. For instance the government can create an independent entity attached to the ministry of finance to guarantee circulation of Sukuks without any constraint. This approach must be followed by giving an overview about the challenge of Sukuks insurance.

- Sukuks Insurance: The major concern of investors is profit. In the same time, following Islamic finance principles oblige to be exposed to loss risk (Profit and Loss Sharing). Moreover the Sukuks holders are always waiting for the expected rate of return estimated in the subscription bulletin. As a consequence we are asking about insurance mechanisms of Sukuks. The guarantee must given by an independent part as reported by the Chari'as

standards of the AAOIFI. Thus some opinions are in favor of greater role of the ICIEC (Islamic Corporation for the Insurance of Export and Investment) which belongs to the IDB group. This international institution can play this role because the majority of Islamic countries are member in this organization and it has experts from all over the world specialized in insurance.

Another solution for this issue of Sukuks insurance is a new Islamic financial product that we suggest in this paper which I have called "Parallel Sukuks". The idea is an alternative to guarantee and insure the Sukuks holders against either loss or less rate of return of the project financed. It consists on Sukuks based in the initial financed project. The subscription bulletin will contain information about an option given to the initial investors to refinance the project if the return was not sufficient through others Sukuks. It's similar to the pre-emptive subscription right practiced in economic entities. It's a new product that can play effective role in promoting Sukuks industry.

4.1.2 Role of central Bank

Following Malaysian experience in Islamic finance the Tunisian central bank must have positive position to encourage this orientation. This mission can be made through Chari'ah comity to standardize practices and avoid divergences. Furthermore it's time to constitute core of experts specialized in Islamic finance, legal affairs, Chari'ah...

Correspondences between central bank and the others financial institutions are a must to evaluate the progress of this mission of developing Islamic capital market products. We ask about the advantages of issuing such financial product in this post revolution country.

4.2 Advantages of Sukuks in post revolution Country

After its revolution, Tunisia is witnessing difficult economic context. The country needs more projects and investments to create job opportunities and ameliorate the financial climate characterized by its instability. Sukuks present the advantage of having an underlying tangible asset. They contribute to the development of real economy. Moreover it's a kind of participation. When the Government issues sovereign Sukuks it will be partner in the project (it's the opposite of the traditional relation of borrower and lender). Furthermore, economic agents are usually in need of liquidity especially in crisis period (post revolution period is considered crisis phase). In fact during crisis banks tend to be stricter for extending credits and the economic system will run to recession situation. Sukuks had continued their financing activities (with the same pace) despite the international turmoil dominating financial market in this country. At the end we can consider this alternative as a way of diversification in capital market products of this country. It can be considered as a refuge to the investors giving less risky opportunities in the economic and financial domains.

5. CONCLUSION

The originality of this paper is the treatment of specific topic related to Islamic finance which is capital market products in specific region belonging to the countries of Arabic spring. Tunisia has particular economic and financial system after its revolution. We have described the specifications of this system regarding Islamic finance. After that we discussed necessary steps to establish Islamic financial product such Sukuks. Finally we presented the advantages of these financial products to overcome the difficulties of this crisis period.

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