Tunisia Islamic finance: overview and future prospects

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Abstract

Purpose – The purpose of this paper is to better understand the current state of the Islamic financial system in Tunisia. In addition, it is aimed at discussing the preconditions that can help exploit the potential development of Tunisia's Islamic finance and expand the banked population.

Design/methodology/approach – The paper describes the regulatory and legal framework governing the Tunisian Islamic banks. It provides a mapping of Islamic banks, mutual funds, Takaful institutions and a potential Sukuk market. The paper also relates recent developments including academic qualifications and training in Islamic finance.

Findings – The paper concludes with various recommendations for the successful transition from a niche position to a critical mass. It argues the need to establish a specific regulatory framework, supervisory standards and rules of accounting for this kind of institutions. It suggests the development of Islamic financial education to strengthen the role played by the Islamic financing Ecosystem and to help Tunisia promote local and exportable expertise to other countries. Finally, authorities should focus more on promoting market Sukuk, Takaful and microcredit to fund SME.

Originality/value – This paper contributes to the assessment of the current situation of Islamic finance in Tunisia by performing a full scan of the Islamic financial landscape instead of being limited only to Islamic banks. It proposes some prerequisites to benefit from the opportunities offered by the Islamic finance industry in Tunisia to take advantage of its future potential and ensure its promotion.

Keywords Mutual funds, Sukuk market, Takaful institutions, Tunisia Islamic finance

Paper type General review

1. Introduction

Since the 2008 financial crisis, the Islamic finance industry has become one of the most active areas in the world and the fastest growing segment in the international financial system. Launched in 1963, the sector now consists of more than 600 financial institutions distributed over 75 countries led by Malaysia and the countries made up of the Gulf Cooperation Council. Analysts and international studies expect Islamic finance to maintain its rapid growth and have approved that it generates USD2.3 trillion per year worldwide and the Shariah compliant products can reach USD30 trillion worldwide by 2030.

Islamic financial services industry includes not only Islamic banks, investment and mutual funds, project finance companies and Takaful institutions but also new instruments of financing and capital market products as "Sukuk". However, retail banks are the primary vehicle since the Islamic financial industry manages 74 percent of the Islamic financial assets, against 10 percent for issuers of "Sukuk", 10 percent for

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investment banks, 5 percent for investment funds and only 1 percent for companies "Takaful" (Ernst & Young World Takaful Report, 2010).

In Tunisian banking, the Islamic finance sector accounts for about 2 percent of the total assets against 61 percent in Saudi Arabia and 42 percent in the United Arab Emirates (Standard & Poor's, 2012). The involvement of Islamic banks in the Tunisian economy is still very limited according to the Governor of the Tunisian Central Bank. Islamic banking in Tunisia constitutes a small proportion of the total bank assets. According to the African Development Bank Report (2011), the Tunisian Shariah compliant assets is about USD0.8 billion for the total assets of USD36 billion. Moreover, Banker, 2010 ranked Tunisia 23rd globally after Turkey (8th), Egypt (12th) and Algeria (20th), by Shariah compliant assets.

There have been significant Islamically financed projects in Tunisia for the benefit of infrastructure, energy and real estate developments. According to experts of the African Development Bank, Islamic finance invested in three projects in Tunisia: "Tunisian Indian Fertilizer" (USD150 million in March 2009), the proposed irrigation development (USD12.3 million in December 2009) and "the financial Port project" (USD3 billion in October 2011). Most of the funding has involved istisna'a.

The objective of this paper is to explore the structure of the Islamic banking sector has been evolving in Tunisia in recent years, and more particularly in the post-revolution period. To better understand the Tunisian market for Islamic finance, we examine the reasons why it has failed to take-off. We also consider its future potential and how it can contribute to economic development.

The paper is organized as follows. Section 2 describes the regulatory and legal framework governing the Tunisian banking sector. A comprehensive overview of the entire Tunisian Islamic financial system is the subject of Section 3. Section 4 discusses the academic teaching and training in Islamic finance qualifications. Section 5 puts forward some recommendations for the recovery of Islamic finance in Tunisia. Finally, Section 6 concludes the paper.

2. Regulatory and legal framework for the Tunisian banking sector

Islamic banks are governed by laws related to conventional banks (Circular to banks No. 91-24 of the Central Bank of Tunisia and Law No. 2001-65 on lending institutions) and by the code of obligations and contracts governing commercial companies. The specific legal and regulatory framework for Islamic products in Tunisia was developed only in the end of 2013, including the issuance of Sukuk, banking, *Takaful*, *Zakat* and *Waqf*. Its review and adoption were performed by the National Constitutional Council.

According to Khouildi (2013), the secretary general of the International Islamic Center for Reconciliation and Arbitration headquartered in Dubai, the code of obligations and contracts applicable to corporations can be considered as a temporary solution, a source of legislation for Islamic finance. Indeed, it presents the main similarities between the Tunisian law and Shariah principles. However, he noticed that this framework is not appropriate since the general text cannot replace the specific one, and some adjustments to the Tunisian law are thus required. The following Tables I and II give some analogies between Shariah principles, Islamic products and Tunisian Laws.

To attract foreign investment, it is necessary to adopt a specific legal and fiscal framework for Islamic finance, which promotes the opening of Islamic windows in conventional banks.

Table I.
Similarities between Shariah principles and Tunisian Laws

Shariah principles	Tunisian law
Prohibition of *riba*	Prohibition of usury (Art. 1101 of the Code of Obligations and Contracts, Law No. 99-64 of July 15, 1999 on to excessive interest rates)
Prohibition of *Gharar* and the *Maysir*	Framing the game and random contracts (Code of Obligations and Contracts, Art. 1452 and 1456)
Islamic finance does not allow speculation and uncertainty	Requirement to have a fixed or determinable object (Code of Obligations and Contracts, Art. 63)
Prohibition of certain sectors deemed illegal	The cause of the obligation must not be contrary to public order and morality (Code of Obligations and Contracts, Art. 67)
Sharing of profits and losses	Obligation to share profits and losses in company law (Code of Obligations and Contracts, Art. 1300)

Source: Chebeane (2011)

Table II.
Similarities between Islamic products and Tunisian laws

Islamic products	Tunisian law
Current accounts and saving accounts	Art. 2 Law 2001-65 and Circular No. 91-22
Investment account	Art. 32 of Law No. 91-82 and Decree of Finance Ministry April 2, 1982, Art. 8, 13 Circular No. 91-22
Murabaha	39-98 Act of June 2, 1998
Moudharaba	Art. 1195 up to 1225 from the code of obligations and contracts
Musharaka	Art. 1249 and 1451 code of obligations and Contracts
Leasing	Leasing law No. 89-1994 and Tunisian Accounting Standard No. 41
Salam	Art. 712 to Art. 717 of Law No. 1 – 1958 but repealed by the COC

Source: Araar (2012)

According to experts, the stagnation of Islamic finance in Tunisia is attributed mainly to the absence of a legislation governing Islamic finance and a regulatory intervention to limit the scope of establishments.

In addition, it is necessary to adopt rules and standards of prudential management, taking into account the nature of the finance, especially in the areas of liquidity management, financial solvency, risk coverage and governance.

Finally, it is interesting to think about the adaptations of international accounting standards to the specificities of Islamic financial activities. We ought to specify at this level that the accounting rules used by Tunisian banks make up an integral part of the companies' accounting system dating back to 1997. They are composed primarily of five banking accounting standards (Tunisian Accounting Standard 21-25). This context promotes the adoption of accounting standards promulgated by the AAOFFI.

The weakness of a regulatory, institutional framework and supervisory standards regulating the activity of Islamic finance has led to the creation of the National Commission of the legal system of Islamic finance to better integrate into the Tunisian economy.

3. An overview of the Islamic financial system in Tunisia

The Islamic financial system in Tunisia includes:

- Islamic banks: three banks offer Islamic products and two others have both conventional and Islamic financial products;
- Islamic mutual funds;
- Islamic insurance or Takaful institutions; and
- a potential Sukuk market.

This paper provides a description of all the components of the Islamic financial system in Tunisia, unlike the research carried out by Chaabouni (2013) and Chaabouni and Hanoudi (2013), which is confined to describing Islamic banks alone.

3.1 Islamic banks

The Islamic banking landscape consists of three Islamic banks offering only Islamic products. The first one is "Al Baraka Bank Tunisia" launched in June 1983. The second is a regional office "Noor Islamic Bank" set up in June 2008. These two banks are gulf based but operate in Tunisia as offshore institutions (non-residents). The third one and the most developed is "Zitouna Bank" initiated in May 2010 by the son of the deposed president. It is a local retail bank to serve the domestic market. In addition to these previous Islamic banks, there are three other banks proposing both conventional and Islamic financial products. They are the Tunisian Solidarity Bank (BTS), the Bank Financing Small and Medium Enterprises (BFPME) and the Arab Tunisian Lease.

Al Baraka Bank Tunisia. "Al Baraka Bank Tunisia" was established in 1983 after receiving an offshore banking license. It was originally called "Beit Ettamwil Saoudi Tounsi" (BEST Bank) before the entire Al Baraka Group was re-branded with the same logo internationally from January 2010. "Al Baraka Banking Group" based in Bahrain owns 80 percent of "Al Baraka Bank" Tunisia "capital". The remaining 20 percent stake in the bank is held by the Tunisian state. Corporate clients of the bank mainly belong to the industrial sector, as well as services, trade and agro-industrial activities.

At the end of 2012, "Al Baraka Bank Tunisia" became a resident bank. Currently, with a capital of 120 million dinars (approximately USD77 million) and having ten branches in different parts of the country, Al Baraka aims to create 50 new branches in five years, an average of ten branches per year.

According to Adnane YOUSSEF (2013), executive Chairman of the Bahraini Al Baraka Group, "Al Baraka Bank Tunisia" expects to hold 5 percent from the Tunisian banking market, in 2018. The bank plans also to create 50 new jobs per year. In 2010, it held about 13 percent of the total bank assets in the offshore sector in Tunisia and about 27 percent of its total deposits (Table III).

"Al Baraka Bank Tunisia" has developed a wide range of products and services in accordance with Shariah to meet the investment and financing needs of its customers. The main products offered are summarized in the following:

- *Key deposits and participatory resources*. Demand deposits accounts, savings accounts, savings accounts participatory, the "loyality" participatory savings accounts, unrestricted equity accounts and participatory accounts affected.
- *The short-term financing*. "Murabaha".

- *The medium-term financing. Taajir* (leasing), "Bai mouajal".
- *The long-term financing.* "Moucharka digressive", "Musharaka Final"

Zitouna Bank. Established in October 2009, "Zitouna Bank" is a universal commercial bank, which implements the laws governing banking in Tunisia. On May 28, 2010, "Zitouna Bank" began its activities by providing retails, professionals and businesses with a range of innovative products and services consistent with the principles of Islamic finance. It has a Shariah committee composed of scholars with extensive experience and expertise in Islamic Finance. The Committee is responsible for supporting the bank in the implementation, supervision and approval of all products according to the principles of Islamic finance. Apart from the main office, there are 42 branches spread over the whole country and placed under the supervision of the Central Bank after the revolution. "Zitouna Bank" is planning to open 100 branches across the country over the next five years.

Based mainly on the technique of Murabaha financing, the products offered by "Zitouna Bank" are retails oriented:

- *Tamouil Menzel*, real estate projects.
- *Tamouil Akkarat El Afrad*, to acquire a property real estate commercial (sale or rent).
- *Tamouil Binaet*, the construction of your property for residential use.
- *Tamouil Tahsinet*, for expansion and renovation (painting works, installation and carpentry [. . .]).
- *Tamouil Tajhizet*, financing facilities.
- *Tamouil Mochtarayet*, projects, unforeseen expenses, etc.
- *Tamouil Sayara*, acquisition of commercial vehicles.

The assets of the two largest banks (Al Baraka and Zitouna) do not exceed 1.4 billion dinars (USD0.938 billion), equivalent of 2.5 percent of total industry assets (African Development Bank Report, 2011). "Al Baraka Bank Tunisia" is ranked 163 and its assets totaled USD418 million against USD4,719 million for conventional leaders (International Arab Bank of Tunisia) (Table IV).

The financial data presented are limited to Zitouna and Al Baraka Bank due to the lack of information relating to Islamic finance sector in Tunisia, as well as macroeconomic data. The absence of historical data can be justified by the recent introduction of Islamic

Table III.
Al Baraka Bank Tunisia financial statement, USD million (2008-2011)

	2008	2009	2010	2011
Customer deposits	395.6	369.7	419.455	426.179
Deposits from banks	36.5	13.6	79.709	60.826
Bank balances	132.0	131.4	163.132	195.619
Client receivables	229.8	227.9	262.154	280.563
Trading securities	134.6	81.7	147.613	86.704
Investment securities	6.9	7.2	8.199	11.140
Fixed assets	5.2	4.3	6.747	6.439
Total assets	523.3	461.3	597.142	592.331

finance to the Tunisian banking landscape. Moreover, the presentation of financial statements of Islamic banks in Tunisia is accomplished according to the conventional accounting model. Thus, no information on specific accounts such as investor accounts holders and profit equalization reserves will appear in the annual reports of these banks. Finally, we note the absence of statistics or studies from official bodies (Central Bank of Tunisia and Professional Association of Tunisian Banks and Financial Institutions).

"Noor Bank" on shore. The third Islamic bank is "Noor Bank", a representative office from a financial institution based in Dubai. It was opened in 2008 and managed from Dubai. There has already been an investment worth over USD2.2 billion from the UAE to Tunisia, but the future investment will depend on the revival of Tunisia's tourist sector.

Tunisian Solidarity Bank. Starting in March 1998, the "Tunisian Solidarity Bank" (BTS) is the first bank specializing in financing small projects through direct funding or through microfinance associations. It grants credits without requiring real or personal guarantees, at an annual interest rate of 5 percent, the lowest in the market. It is an alternative to the traditional banking system since it finances some micro-projects and micro-enterprises of young promoters. In 2013, the Tunisian Solidarity Bank undertook a strategy to diversify its products by introducing Islamic products and encouraging young people to settle their own accounts through the "Young employment medium-Tunisia" "Yes-You" program, funded by the Islamic Development Bank. "Yes-You" is an Islamic microfinance program aimed primarily at young people from interior (rural) areas and disadvantaged areas. The "Yes-You" program is part of a series of programs financed by the bank, to support young people in their investment projects. In addition to the funding line of USD50 million, IDB is planning to mobilize an envelope of about USD320,000 for the technical assistance program of stakeholders.

Bank of financing to small and medium enterprises. The Tunis-based Bank of Financing to Small and Medium Enterprises (BFPME) was founded in March 2005 to provide the assistance and support required to facilitate the creation and expansion of SMEs and for easier access to finance.

It has agreed with the Jeddah-based Islamic Corporation for the Development of the Private Sector (ICD), a private investment arm of the Islamic Development Bank, to help smaller companies in Tunisia. The plans include a 50 million dinar Shariah-compliant SME fund (USD32.3 million). It was launched in January 2013 by the Tunis-based United Gulf Financial Services – North Africa (UGFS-NA), which is 60 percent owned by the Bahrain-based United Gulf Bank. The fund, financed by the ICD and the

	Zitouna Bank
2011	
Total assets	325,946
Total liabilities	289,564
Operating income	15,497
Net income	(511)
2012	
Total assets	304,741
Total liabilities	409,493
Operating income	(678,237)
Net income	(752,308)

Table IV. *Zitouna* Bank financial data 2011-2012 (expressed in thousands USD)

Tunisian Government's Deposit and Consignment Fund, will focus on urban areas, and hopes its investments will create up to 1,000 new jobs. The plans also call for the ICD to assist BFPME, which has a capital of 100 million dinars, in developing Islamic lending products tailored for SMEs.

Arab Tunisian lease. For 20 years, the Arab Tunisian Lease has accumulated expertise in the business of leasing that allowed it to settle in as the second operator on the market with a network of ten bank branches located in different cities. Its activity covers all economic sectors as industry, services, agriculture and new technology. In addition to conventional leasing, Arab Tunisian Lease launches in 2013 the *Ijara* product for movable (60 months) and immovable property (84 months).

In Tunisia, we noted that conventional banks have not been allowed so far to open Islamic windows. For example, the request of "El Wifack" filed since March 2013 at the Central Bank of Tunisia to have a license to practice as Islamic banking has not yet been accepted. The question is not yet settled. The competent authorities have not yet taken a decision on the opening of Islamic windows by Conventional banks.

3.2 Islamic mutual funds

Three Islamic mutual funds characterize the Islamic financial landscape in Tunisia. Their presence is quite recent since the oldest dated from 2009.

ATID Fund. "ATID Fund" is the first mutual risky fund launched in March 2009. "Al Baraka bank Tunisia" and the Arab Tunisian company for investment and development are the fund promoters company. It is a diversified portfolio of investments, made on the basis of:

- At least 65 percent of assets in companies those realize the projects provided by investment companies.
- More than 20 percent of assets in the distribution sector.
- 15 percent maximum active in the real estate sector.

All these investments are operating in companies whose portfolio does not include prohibited areas by Shariah.

Al Kaouther fund. Al Kaouther is an Islamic mutual fund launched by "Amen Bank" with "Tunisie Valeurs" in March 2010. The fund is open ended and classified as a low risk and balanced with a minimum of 50 percent of total investments placed in companies listed on the Tunisian stock exchange, a maximum of 30 percent in monetary placements and 20 percent held as liquidity. The launch capital was 10 percent subscribed by the Islamic Development Bank, with 20 percent by Bechir TAMARZA, 20 percent by Omar BEN ZINA and further 10 percent subscribed by Zitouna Bank. So far, it is too early to assess performance, which has been adversely affected by the uprising, but the longer term prospects are potentially promising, although constrained by the small size and restricted stock selection available in the Tunisian stock market.

Theemar Investment Fund. "Themar Investment Fund" was launched by United Gulf Financial Services – North Africa in February 2013. It is the largest Shariah-compliant Tunisian investment fund under the Tunisian Monetary Authority. It has a capital of 50 million dinars (approximately 32 million USD), to be financed by the Islamic Corporation for the Development of the Private Sector and the Deposits and Securities Fund of Tunisia.

"Themar Investment Fund" will contribute to boosting the Tunisian economy by creating up to 1,000 new jobs. The fund will provide financial resources for institutions with high growth potential, particularly for small and medium Tunisian institutions. Intervention funds will be around 1.5-2 million dinars (USD0.77-0.95 million), per project, without exceeding 15 percent of the total investment. These projects cover the areas of manufacturing, agriculture and information technology service.

3.3 Takaful institutions

According to Ernst & Young World Takaful Report (2012), the Takaful should experience growth of around 20-25 percent per annum over the next five years. Specifically, the market potential of the Tunisian insurance is very strongly given a penetration rate of insurance in the economy, so far limited to 1.98 percent against a global average of 8 percent.

Zitouna takaful. *Zitouna Takaful* is the first Islamic insurance company in Tunisia, created in 2011 with a capital of 15 million Tunisian Dinars (approximately USD10 million). It is an insurance and reinsurance company providing a wide range of products for individuals, professionals and businesses. It works with more than 30 agencies, 23 products and more than 10,000 subscribers. It is totally subject to legal and regulatory requirements governing the conventional insurance sector.

Tunis Retakaful. *Tunis Retakaful* came first to meet the needs of the domestic market with the launching of the Zitouna Takaful Company, and second to meet the increasing requirements of Takaful insurance companies for Retakaful coverage in MENA and Africa.

AlAmena Takaful. The birth of the Islamic "El Amena Takaful Insurance" was announced in June 2013 with a capital of 10 million dinars (USD6.1 million). It was created as part of a Tunisian-Saudi partnership between several Tunisian insurance and reinsurance companies (up to 60 percent) on the one hand and companies owned by groups Dellah El Baraka and El Baraka Bank Bahrain (34 percent) on the other hand.

Al Takafulia. "Al Takafulia Insurance" was created in June 27, 2013. It was granted the approval of the Ministry of Finance on August 23, 2013 and officially started its activities on January 2, 2014. 96 percent of its capital, which amounts to 10 million dinars (approximately USD6.5), is owned by financial institutions (seven insurance and reinsurance companies and a bank).

The products are mainly offered to retail insurance (for example automotive, travel assistance, health care, life insurance) and to business products (for example insurance, fire, transportation, construction [. . .]).

3.4 A potential Sukuk market

The 2013 Finance Act deals with "good Islamic treasure". A 1,000 million dinars (approximately USD600 million) of sovereign Sukuk should have been issued in 2013 to finance projects and a growing deficit budget. The transaction requires the adoption of a framework law to govern the activities of Islamic finance. Recently, the National Constitutional Assembly approved a bill that will legalize Islamic bonds or Sukuk but the actual implementation was postponed. Until now, this issue has not been addressed.

The new law also aims to attract investments from Gulf countries where large Islamic financial institutions are potentially willing to take risks in North Africa until the expected returns take the risks into account. The following table shows the evolution of the Islamic Banking system in Tunisia (Table V).

Table V. Overview of the Tunisia Islamic financial system

	Year of establishment
Islamic banks	
Al Baraka Bank	1983
Noor on shore bank	2008
Zitouna Bank	2009
Al Baraka on shore bank	2012
BTS offering Islamic products	2013
BFPME offering Islamic products	2013
ATL Leasing launched the *Ijaraa* product	2013
Islamic mutual funds	
ATID Fund	2009
Al Kaouther Fund	2010
Theemar Investment Fund	2013
Takful Institutions	
Zitouna Takaful	2011
Tunis Retakaful	2013
Al Amana Takaful	2013
Al Takafulia	2013
Sukuk market	
Issuance of a 1,000 million dinars approximately USD600 million	Scheduled for 2013 but not yet realized

During the period before the revolution, national political factors had not encouraged but had rather often hampered the development of Islamic banking services. The activities of existing Islamic banks were limited to the financing of certain products, such as *Murabaha* and *Ijara*. Similarly, their activities were legally and technically governed by the conventional banking law. Thus, Al Baraka could not grow because the legislation restricts its Islamic banking operations for instance total deposits should not exceed 1 percent of the total banking system deposits. Political power in the post revolution shows its interest in Islamic finance and sees a solution to the crisis in the country.

In its report on Islamic finance in North Africa, Standard & Poor's (2012) noted that the improved prospects for Islamic finance in the countries of North Africa are dependent on the creation of a climate of confidence on the part of regulators and banks. The agency stresses the need for a stable political environment which would allow the modification of the existing legal framework to take the specificities of Islamic finance into account.

4. Academic qualifications and training in Islamic finance

The training on Islamic Finance in Tunisia is still in its infancy. Indeed, until 2012 there were only two degrees in the field of Islamic finance including:

1. A professional Master's degree, lunched in 2011-2012, focuses on the *al fiqh* issued by the Higher Institute of Theology of Tunis-Ezzitouna University. It provides training for teachers and teaching of Islamic thought.
2. Certified training or a mini Master issued by the academy of banking and finance subsidiary to the Tunisian Professional Association of Banks and Financial Institutions, providing vocational training for executive banks in office. Many of them are preparing to conduct Islamic windows or subsidiaries of their conventional banks.

Despite a favorable regional and local Islamic finance context associated with a real and growing demand for its products, specialized training remains restricted. Tunisian universities became recently interested in this training. In fact, in the academic year 2012-2013, the "higher school of economics and commercial sciences of Tunis" (ESSECT) introduced an executive MBA in Islamic Finance. The "Faculty of Economic Sciences and Management of Sfax" (FSEGS) implemented a Master's of Research in Islamic Economics and Finance from the academic year 2012-2013 and a basic degree in Economics and Islamic Finance from September 2013.

We also note that some private institutions have engaged in professional Master programs in Islamic finance, in collaboration with the CIBAFI and AAOFFI, such as the case of International School of Business-Sfax.

Given a favorable current environment and excitement brought to Islamic Finance worldwide, it would be appropriate for Tunisia to promote local and exportable expertise to other countries. Many learning programs and Master's in Islamic and banking finance are provided throughout the world mainly in the UK, France, Bahrain, Malaysia, UAE, etc.

5. Main recommendations

The objective of this section is to put forward some key recommendations to benefit from the opportunities offered by the Islamic finance industry in Tunisia and to ensure its promotion. Two recent studies aimed to examine the development of Islamic finance and assess its potential evolution.

The first one is a survey conducted by Gallup (2014) entitled *Islamic Banking Remains Niche Market in North Africa*. Via a statistical study, Gallup measured the rate of preference for Islamic banking services with additional questionnaire on the awareness, use, and preference for these financial products in five countries in the region (Morocco, Algeria, Tunisia, Egypt and Yemen). Results are based on face-to-face interviews with 1,000 adults aged 15 and older, conducted in 2012. Results report about half 57 percent of adults having heard of Islamic banks in Tunisia and only 2 percent of respondents consume products complying with Shariah. They are 54 percent in Morocco to declare their preference for banking "Shariah compliant", 49 percent in Algeria, 37 percent in Yemen and 31 percent in Tunisia. Thus, Moroccans are more likely to choose the Shariah compliant banking, while the Tunisians are more likely to opt for conventional services. According to a Gallup poll, Islamic finance remains a "niche market" in North Africa.

The second is Islamic Finance Country Report (2013) entitled *Tunisia Cautiously Optimistic* and it is a Joint Initiative CIBAFI, Thomson Reuters, Zawya, IRTI and Multilateral partner ICD (BID member). This study presents two scenarios of the potential for Islamic finance in Tunisia. According to the first scenario, the assets of Islamic finance in 2018 will amount to 28.5 billion USD (40 percent of the total assets of financial institutions) while they are estimated at 17.8 billion USD as the second scenario (25 percent of the total assets of financial institutions). The survey was conducted online and offline with a representative sampling of target key geographic regions of Tunis, Sfax, Sousse, and the rest of the country, with 701 fully completed responses. The main results report that a majority (89 percent) do not currently processing with an Islamic bank. They also indicate that interviewees expressed a considerable interest in Islamic banking services. There is a strong demand for Islamic finance services with a potential of up to 40 percent of total financial assets in Tunisia with a minimum potential of 25 percent of total assets within five years. It is also estimated that Islamic finance can bring additional assets to 7 percent of the unbanked population.

Considering the above results, it seems that the presence of market push and government pull is favorable for launching Islamic finance in Tunisia. It is also essential to take advantage of the future potential. However, for the successful transition from a niche position to a critical mass, certain preconditions are necessary to implement, namely.

Islamic regulatory framework

Currently, Tunisia has no specific law on Islamic finance. The Tunisian Government should establish a comprehensive regulatory framework for the Islamic financial industry with special incentives to boost the growth of financial investment in Islamic finance. Hafiz (2013), general counsel for Islamic banks and financial institutions, called for:

> [. . .] establishing a five-year strategy for the development of Islamic finance in Tunisia to implement laws and regulations promoting this product, amend legislation that opposes its development and create an institution to control this finance wholly or partially independent of the central bank.

The potential of the Islamic financial market depends on adopting the Islamic financial legislation proposed in 2013, increasing the institutionalization of this sector and maintaining a favorable political environment in Tunisia. The development of Islamic financial products requires the industry to provide a regulatory framework, supervisory standards and rules of accounting.

Product diversification and focus more on SMEs

All major sub-sectors of Islamic finance should be developed to provide customers with comprehensive financial options and Shariah compliant investment series. Priority areas should include: services Sukuk, business and government, SME finance, retail banking, microfinance, Takaful and investment funds. According to Hafiz (2013):

> It's necessary to organize training programs to promote Islamic finance, to focus on SMEs and micro-enterprises and to enact laws criminalizing the non-payment of Zakat as well as the criminalization of tax evasion and in the development of Islamic economics.

The products offered by Islamic banks may be particularly suited to the needs of small- and medium-sized enterprises since the Islamic bank acts as a partner and not as a funder. It also has structures for monitoring the implementation of investment of SME.

Development of Sukuk market

The Islamic bond market is growing continuously all over the world and Sukuk remains a major facet of the Islamic finance industry in 2013. This financial product prohibited Gharar and requires the presence of tangible assets leading to more security and confidence to the investors which explain the continuous increase of such market.

In the current Tunisian context, attracting European investors is difficult. Islamic finance offers an alternative to conventional bonds and a new alternative for the mobilization of internal and external resources. However, the development of such a market needs a favorable regulatory environment and requires qualifications and expertise.

The Sukuk could also serve as solutions to Islamic banks to provide the liquidity necessary for their proper functioning instead of obtaining financing from the Central Bank of Tunisia. They can also serve as a source of financing for firms.

Promotion of Takaful

"Takaful" will help revitalize the insurance market, which has not yet reached maturity. In fact, the potential of Tunisian insurance is very strongly given a penetration rate in the economy so far limited to 1.98 percent against a global average of 8 percent (Ernst & Young World Takaful Report, 2012). According to forecasts of the General Committee responsible, "Takaful" will take off in Tunisia and will reach the horizon of 2017, about 10 percent of the total volume of sales of insurance. Its revenue has a growth of about 20 percent annually, while conventional insurance only increases by 10 percent.

Building on the academic role of Islamic finance

The Islamic financing Ecosystem (experts, institutions, media, relevant professional, events) is limited in Tunisia. Besides, we observe little familiarity of potential customers with the services of Islamic banking services and the lack of state support. To familiarize publicly with concepts and mechanisms of Islamic finance, efforts should be made towards developing Islamic financial education, organizing training sessions and establishing "outreach" campaigns. Like the Malaysian experience, the Central Bank may force bankers to set up a budget for research and training staff.

6. Conclusion

This paper analyzes the situation of Islamic finance in Tunisia. It explores the legal and regulatory framework governing the sector, reviews the structure and components of the Tunisian Islamic financial system and provides information of the situation of academic qualifications and training in Islamic finance.

The study finds that the Islamic banking sector is still in infancy. In fact, the introduction of Islamic finance is quite recent (except Al Baraka 1983, the oldest Islamic financial institution dates back to 2009). The market is still small and the possibilities for use are important. However, the implementation of Islamic finance in Tunisia requires a number of prerequisites, including the promotion of market Sukuk, Takaful and microcredit to fund SME. In addition, it is worth considering the establishment of a regulatory framework specific to Islamic banks and the introduction of Islamic banking culture among consumers, professionals and institutions.

A question arises: should Islamic finance in Tunisia be an alternative or a complement to conventional finance? Some advocate the separation between the conventional system and Islamic financing through the establishment of a separate legal framework as adopted in Malaysia, Bahrain, Kuwait and the United Arab Emirates. In contrast, others advocate the fusion of Islamic finance with its conventional counterpart by adopting the principle of the freedom to practice this activity through specialization or creating departments to provide all services.

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