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Sukuk as an Attractive Alternative of Funding and Investment in Tunisia

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Abstract

During the past decade, the Islamic finance industry has witnessed significant developments, particularly in the field of Sukuk (Islamic bonds). Sukuk represent one of the most successful products in Islamic finance. They have attracted the attention of several investors and become increasingly popular in various markets worldwide. They have gained prominence as financial instruments serving both government funding through the issuance of sovereign sukuk and private sector funding through corporate sukuk. This paper starts by providing a brief overview on the sukuk structuring and on the major developments in the flourishing world Islamic capital market. It then investigates the Malaysian sukuk market, with special focus on the key factors contributing to its successful experience. The paper concludes by explaining the ways through which sukuk represent an attractive alternative of funding and investment for Tunisia, taking into account that Tunisia is preparing for its first issuance of sovereign sukuk in the second term of 2013. The promising potential sukuk is also demonstrated through comparing measures taken by the Tunisian and Malaysian governments.

Keywords: Islamic capital Market, Sukuk, investment, funding, Malaysia, Tunisia

1. Introduction

1. Introduction

During the last decade, the Islamic finance has undergone a phenomenal success and unprecedented expansion, reaching an annual growth rate of 15 %. To maintain its position and strengthen its competitiveness, the Islamic finance has continuously tried to be innovative in term of products and to meet the requirements of financial market players. Sukuk, or Islamic bonds, are one of the most successful tools in Islamic finance industry. They also represent one of the fast growing sectors in the global financial market (Mohad Zin, 2011). In 2012, the issuance of sukuk occupied a major place in the

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Islamic finance industry, reaching a total amount of about 400 billion dollars. They can be considered as an attractive alternative of funding and investment as they provide access to a huge liquidity pool for several countries throughout the world. Tunisia, an emerging North African country, seems to consider that sukuk are an economic growth opportunity worthy of notice. Accordingly, it is planning to launch a first sovereign sukuk issuance with an amount of 1000 million Dinars (about 626 billion Dollars) in the second term of 2013. To guarantee that a first essay procedure be successful, it is important to specify how the sukuk market managed to keep a sustainable growth and to withstand the economic difficulties encountered by several other countries. Accordingly, this paper investigates the Malaysian sukuk Market, one of the leading sukuk issuers in the Islamic Capital Market. It aims to identify the key factors leading to the successful experience in this country and to see if they can be ensured in Tunisia so as to prepare the grounds required for the success of its upcoming issuance of sovereign sukuk.

The first section of this paper provides a general overview of sukuk structuring and the global sukuk market. Section two is devoted to the study of the Malaysian sukuk market and to identification of the key success factors in the Malaysian case with special focus on issues pertaining to the sukuk industry. The third section aims to demonstrate how sukuk represent an alternative of investment and funding for Tunisia. Different policies and measures related to sukuk issuance are then described and evaluated. The paper concludes by providing a number of recommendations.

1. A General Overview on Sukuk Structuring and Global Islamic Capital Market

1.1. What is Sukuk?

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) defines Sukuk as: "Certificates of equal value representing undivided shares in the ownership of tangible assets, usufructs and services (in the ownership of) the assets of particular projects or special investment activity." This definition indicates that sukuk are Islamic bonds that are tangible asset-backed securities and that allow for the remuneration of investment without involving interest rate. They have a maturity date and confer a property right to the holder. Sukuk are structured in such a way that their holders run a credit risk and receive a share of the profit with no interest payment fixed in advance. Sukuk are, therefore, securities that are structured like conventional bonds, but with the distinction that they comply with the principles of Islamic Shariah, including the prohibition of interest, gharar, and investment in illicit activities. Table 1 below provides a brief comparison between sukuk and conventional bonds. Table 2 summarizes the major differences between sukuk, bonds, and shares, and figure 1 illustrates the general structuring of sukuk.

Table 1: Comparison between sukuk and Bonds

SUKUK	BONDS
Sukuk represent ownership stakes in existing and/or well-defined assets;	Bonds represent pure debt obligations due from the issuer;
The underlying assets secured in a sukuk issuance must comply with Shariah and respect Islamic prohibitions;	Bonds, can be issued to finance almost any purpose which is legal in its jurisdiction;
Sukuk holders are related to the costs and risks associated with the underlying assets, and their rewards are not fixed;	Bond holders are not concerned with the expenses and risks of the issuer's underlying assets and receive a fixed interest rate;
Sukuk prices depend on the market value of the underlying asset;	Bonds depend solely on the credit worthiness of the issuer;
Neither capital nor performance can be contractually guaranteed;	Capital and performance are contractually guaranteed;
The sale of sukuk is generally the sale of a portion of an asset.	The sale of a bond is essentially the sale of a debt.

Table 2: Differences between sukuk/bonds/shares

COMPARISON	SUKUK	BONDS	SHARES
Type of security	Share of revenue stream	Debt	Ownership in a corporation
Type of return	Profit sharing	Coupon	Dividends
Maturity date	Specified	Specified	Unspecified
Priority in paying principle	First in priority	First in priority	Less in priority
Risk	Lower	Lower	Higher
Voting rights	Not entitled	Not entitled	Entitled

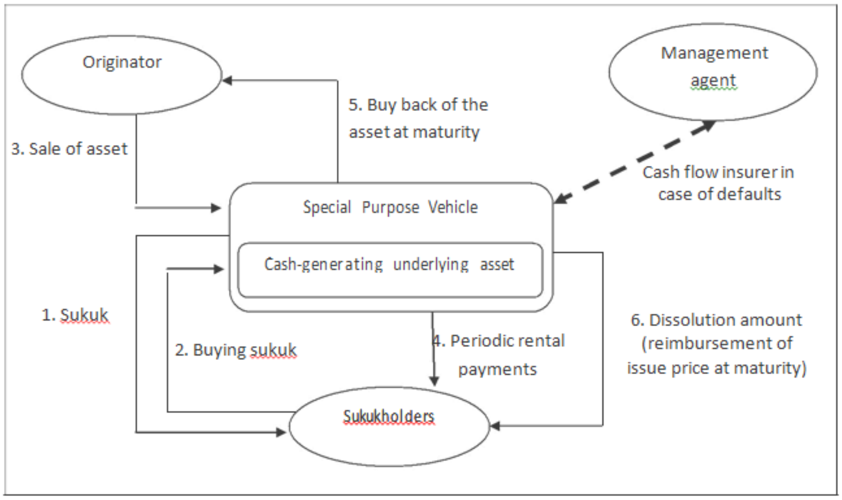

Figure 1: SUKUK General Structuring

The Special Purpose Vehicle (SPV) plays a central role in the sukuk issuance process. The originator sells or transfers a well-defined asset to the SPV which proceeds to sukuk issuance. The SPV collects payments from sukuk holders or investors to the benefit of the originator. During this process, the SPV is responsible for periodic rental payments to sukuk holders. At maturity, or dissolution event, the SPV sells the asset back to the originator or a third party. The dissolution amount will be to the reimbursement of the issue price of sukuk holders. Moreover, the SPV facilitates the sukuk issuance transaction and mitigates the operation costs, particularly tax costs. It also protects the interest of both parties, issuer and investors, particularly in the case of issuer default (Hassan, 2012).

The AAOIFI has issued standards for 14 different types of sukuk, which are summarized in Figure 2. The most common types of sukuk are Ijarah sukuk, Murabaha sukuk, Musharak sukuk, Mudaraba sukuk, Salam sukuk and Istisnaa' sukuk.

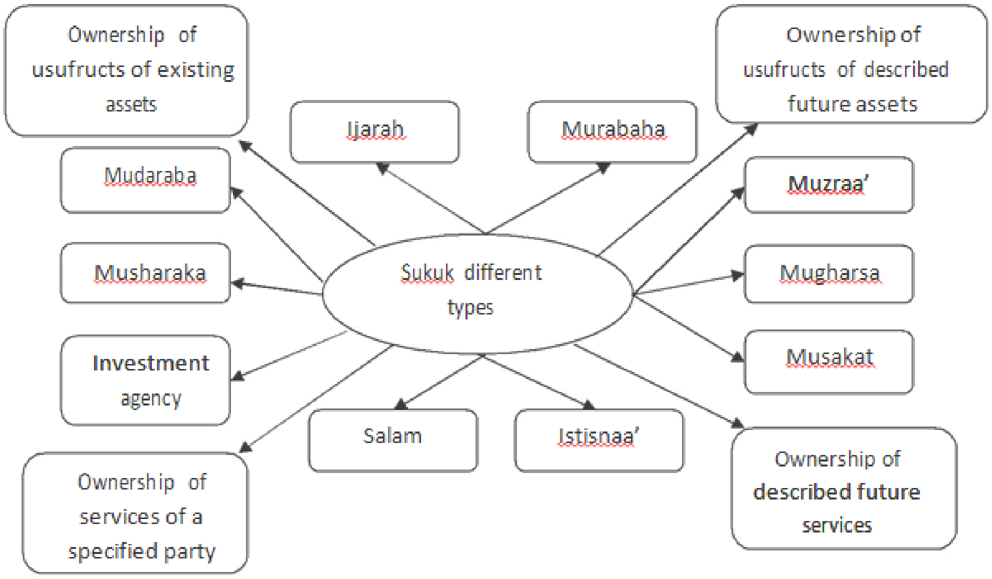

Figure 2: The different types of sukuk listed by the AAIOFI

1.2. A Brief Historical Overview of Sukuk Emergence

Before the 1990s, the Islamic capital market operated in similar ways to the conventional capital market, though with modest performance being displayed by some countries. In 1983, the Central Bank of Malaysia noted that the Bank Islam (the first Islamic bank in Malaysia) avoided the use of treasury bills, which triggered the issuance of investment certificates without interest rates. This move represented the first experience with issuing securities that comply with Islamic shariah. During the same year, Dr. Sami Hammoud (Director General of the Centre of Research and Albaraka the Islamic Financial Consultation) proposed certificates termed as 'Almoqaradha' as an alternative to the conventional bonds prohibited by Shariah. These certificates were based on the principle of Mudaraba.

The sukuk, in their current form, were born following a meeting held by the Islamic jurisprudence Council (IJC, based in Saudi Arabia) in February 1988. The decision released by the council stated that "any combination of assets (or usufruct of assets) can be represented in the form of written instruments which can be sold at a market price provided that the composition of the group assets represented by the sukuk consist of a majority of tangible assets." The first private sukuk issue came in 1990 in Malaysia by Shell MDS, a non-Islamic corporation. The first trading of shariah-compliant securities also occurred in Malaysia in 1995. The Bahrain Monetary agency (now the Central Bank of Bahrain) issued the first sovereign sukuk Ijarah type with an amount of 100 million dollars in 2001. In the same year, Kumpulan Guthrie Berhad (Guthrie Group Limited), a Malaysian public company, issued the first global corporate sukuk with an amount of $ 150 million based on the Ijara structure.

Malaysia issued its first global sovereign sukuk in 2002, with an amount of $ 600 million. Since then several countries have joined the exercise, including Indonesia, Saudi Arabia, Qatar, Germany, Pakistan, and the United Arab Emirates. In 2011, the global number of countries issuing sukuk reached eighteen.

1.3. Overview of the World Sukuk Market

The record growth rates recorded by the Sukuk market, particularly in the years before the global financial crisis of 2008, were impressive. The market peaked in 2007 with a total issue size approaching $ 49 billion. The sukuk market has not been spared from the effects of the crisis. In fact, the sukuk market underwent a decline in growth rates during 2008 and 2009, causing a decrease in sukuk issuances which reached $ 18.8 billion and $ 25.6 billion, respectively. Even though the Islamic financial institutions have no toxic assets, they were influenced by macroeconomic shocks due to shortages in liquidity and absence of investor confidence. The total amounts of sukuk issuances made during the period of 1996-2011 are summarized in Figure 3 below.

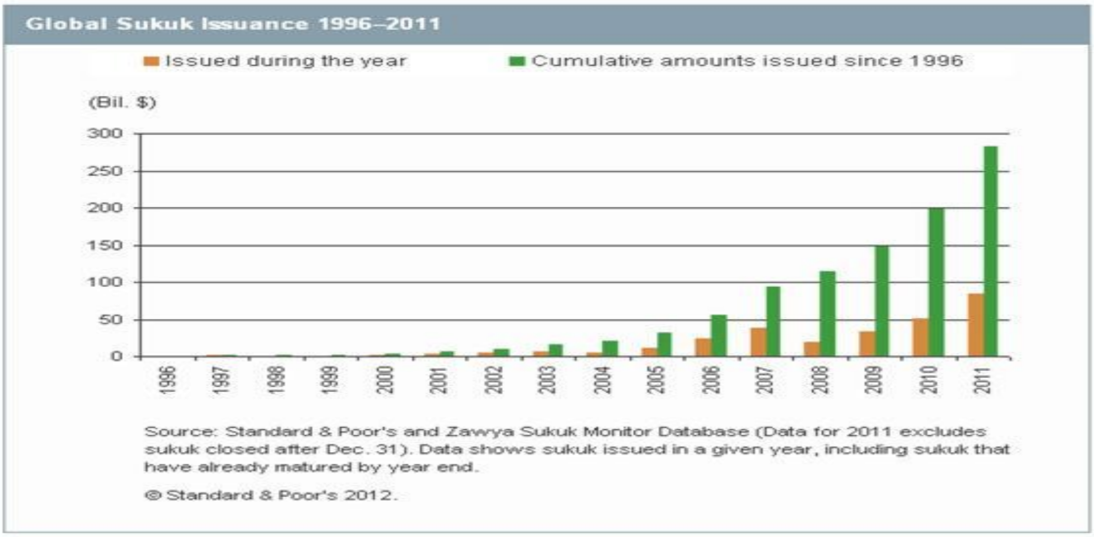

Figure 3: The Total Amounts of Sukuk Issuances (1996-2011)

As shown in Figure XXX, 2010 marked a year of recovery for global markets, which was attributed to government incentives that brought positive effects on the Islamic finance market. The issuance of sukuk in 2010 almost returned to its level before the crisis, with total issuances of 46.3 billion, which was particularly due to the issuance of domestic sukuk in Malaysia.

According to official data compiled by the Zawya Sukuk Monitor Database, the sukuk market reached a record of $ 85.5 billion in 2011, thus displaying an increase of 74% when compared to the amount recorded in 2007.

Figure 4 below shows the relative sukuk issuances by country in 2011 compiled by the Zawya Sukuk Monitor Database. It can be noted that the major large-size sukuk issuances were concentrated in East Asia and the GCC. In 2011, Malaysia was the leader in terms of total global issuances, with a huge share of 68.75 %, followed by Qatar, with a share of 10.99%, and UAE, with a sha re of 4.84%.

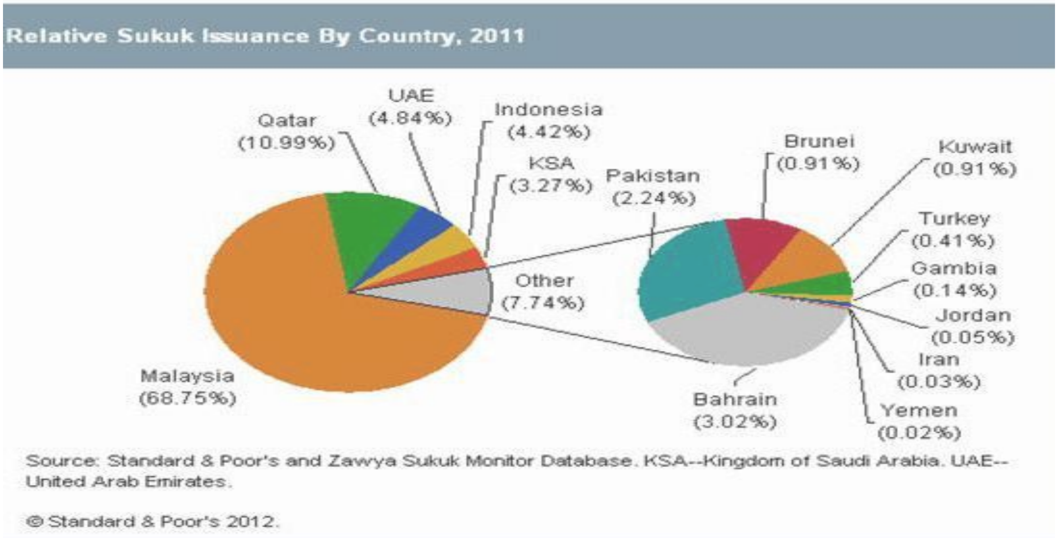

Figure 4: Sukuk Issuance by Country

The sector with the highest use of such instruments is the public sector, with two thirds of issuances, followed by financial institutions and power and utility companies.

This trend continued in 2012, with governmental sukuk represen ting about 45% of total issuances,

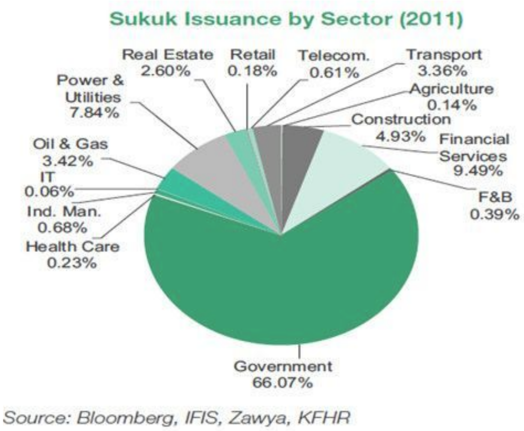

Figure 5 : Sukuk Issuance by Sector (2011)

closely followed by the sukuk of the transport sector. In fact, airport and motorway companies have become in creasingly interested in this new type of funding. This is particularly due to the suitability of this instrument to the nature of their activities a nd performance. Several other sectors have also made extensive use of sukuk as a means of financing, including the energy sector, which often requires a stron g mobilization of capital. A large number of power plants, refineries and reactors have, as a consequence, been funded by issuing suk uk of different sizes and types. Figure 6 below illustrates the amounts (million dollars) of suku k issued to finance infrastructure projects.

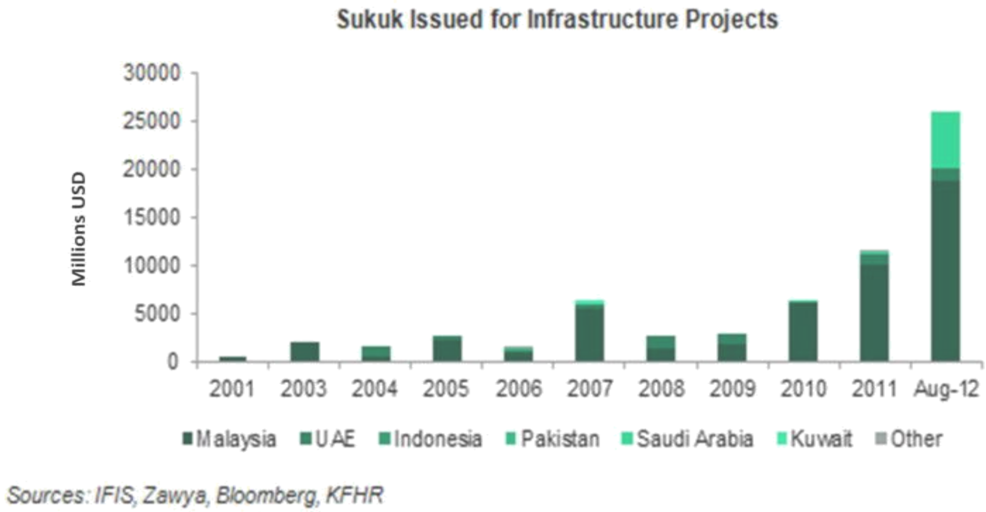

Figure 6: Sukuk Issued for Infrastructure Projects

Sukuk play a crucial role in financing infrastructure. In fact, their flexibility allows them to adapt to projects of different nature and profitability. They can be used for the construction of ports, airports, stations and highways, and also on more innovative projects such as wind and solar-energy.

We note that 87% of issuances remain sovereign and quasi-sovereign bonds, with the share of

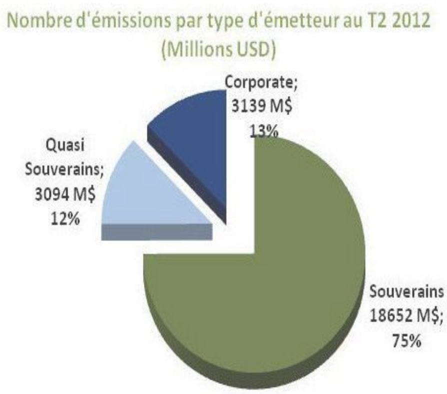

Figure 7 : Number of Sukuk Issuances by Issuer Type (1Q 2012)

business start emissions undergoing a slight increase to reach 13%. On the primary market, the Murabaha sukuk structure prevailed during the first quarter of 2012, with 48.9% of market share, whereas the Musharaka and Ijara sukuk represented 29.9% and 14.5%, respectively. It could be noted that 62.3% of the sukuk issued by Saudi Arabia during the first quarter of 2012 belonged to the Murabaha structure, although this country has traditionally issued Sukuk from the Ijarah and Wakala types. It is worth noting in this context that Sukuk Murabaha cannot be all traded on the secondary market for Sharia compliance reasons.

Nowadays, and given the recent capital market developments witnessed in several countries, such as Indonesia, Brunei and Pakistan, most of the issuances use the Ijara structure. Unlike sukuk Murabah, sukuk Ijara are the most tradable in secondary markets.

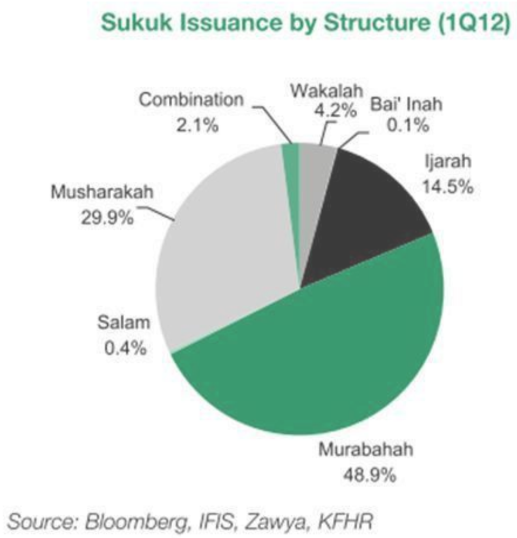

Figure 8 : Sukuk Issuance by Structure (1Q 2012)

1.4. Factors of World Sukuk Market Development

Since the early 2000s and until today, the sukuk sector has experienced a continuous development and an unprecedented growth. This is attributed to several factors, including the fact that market players from various streams, such as investors and issuers, Muslims and non-Muslims, governmental and private companies, have increasingly become interested in the use of sukuk. The increasing global interests in spiritual and religious renewal and the spread of Islam to Western countries have led to a growing interest in Sharia-compliant products. In fact, the unique nature of sukuk, which comes from their compliance with the principles of Islamic finance, gained the confidence of Muslim investors and incited them to invest their money.

For Western countries, sukuk represent access to additional fund resources. In fact, it is a way of attracting funds from their Muslim citizens who currently represent an important and constantly growing portion of the population (9% in France, Germany 5%, 3% in the UK). Moreover, the accumulation of a considerable amount of liquidity from petrodollars in the Persian Gulf region after 9/11 and the lack of liquidity and credit crunch in Western countries after the financial crisis prompted several Western countries to adopt and develop Islamic financial instruments to have access into these markets.

Furthermore, Sukuk represent an excellent tool to meet the need for huge monetary funds necessary for the financing of major projects, such as infrastructure projects (construction of bridges, roads, etc.). The development of the sukuk market was a result of governmental support and encouragement through the issuance of sovereign sukuk via central banks and by providing an adequate legislative and regulatory framework for sukuk issuance, which increased the confidence of market players. The supply and demand for sukuk were further enhanced by financial institutions, such as insurance companies, banks and pension funds, which found in sukuk a reliable tool for the management of liquidity. Finally, the openness of the financial markets of the Islamic world and the success of the Malaysian model as the largest global sukuk issuer have significantly contributed to the development of this increasingly popular financial instrument.

2. The Case of Malaysia

2.1. An Overview of the Malaysian Sukuk Market

Malaysia has been a pioneer in the Islamic capital market. In 1983, the Central Bank of Malaysia sought to issue the first sharia-compliant securities in an attempt to meet the concerns expressed by Bank Islam over the holding of treasury bills because of the prohibition of interest under Islamic sharia. Since 1990, the date marking the issuance of the first Malaysian domestic corporate sukuk by Shell MDS Sdn Bhd for an amount of RM 125 million, Malaysia has emerged as a leading market in terms of sukuk.

The sukuk market showed strong resistance and resilience that allowed it to face and withstand the difficulties associated with the Asian financial crisis of 1997/1998 and the economic downturn of 2001 that resulted from the deflation of the global information technology bubble. In fact, corporations that have funded their long-term capital investments or business expansion projects with long-term debt securities and sukuk were able to keep away from the negative effects of credit crunches, interest rate spikes, and exchange rate declines (Ab Majid, 2011). The ability demonstrated by the sukuk market to survive such stresses further extended and strengthened the credence that different market players had in this instrument.

During the period between 2001 and 2007, the sukuk market underwent an exponential growth, with an average of annual growth of 22% (Mohd Zin, 2011). Since 2001, Malaysia has continuously been innovative in the sukuk market both domestically and internationally. In 2001, Malaysia witnessed the issuance of the first global sovereign sukuk by Kumpulan Gutherie Bhd (US 150 Million). The Malaysian sukuk market has since then proven to be a viable and attractive issuance centre for foreign issuers. The year 2002 marked the introduction of the first sovereign global sukuk in the world. Since then, Malaysia has witnessed a continual success by introducing innovative sukuk structures, such as the convertible musharaka sukuk issued by Khazanah Nasional Bhd, the Malaysian government investment holding company in 2006. It was the first experience of issuing an exchangeable sukuk as full convertibility is usually used only for conventional equity-linked transactions (Central Bank of Malaysia, 2007). Figure 9 below presents sukuk issuance by type of issuer in Malaysia.

In 2008, the Malaysian sukuk market was indirectly affected by the global sukuk market and international financial crisis. The amount of sukuk issuances dropped as a result of severe credit crunches and lack of confidence on the part of issuers in the whole financial system. In 2010, however, the sukuk market was able to regain its growth and continued to grow at a faster pace. In 2008, the size of corporate sukuk exceeded the value of outstanding corporate bonds in the domestic market. Corporate sukuk accounted for 55.9% of the outstanding debt securities and sukuk issued in Malaysia.

The sustainable success of the Malaysian experience in sukuk issuance attracted the attention of market players worldwide. Malaysia has become a highly attractive centre for the issuance, trading and investment in sukuk. It holds the rank of the largest global sukuk issuer, with more than 68% of the global sukuk issued in 2011.

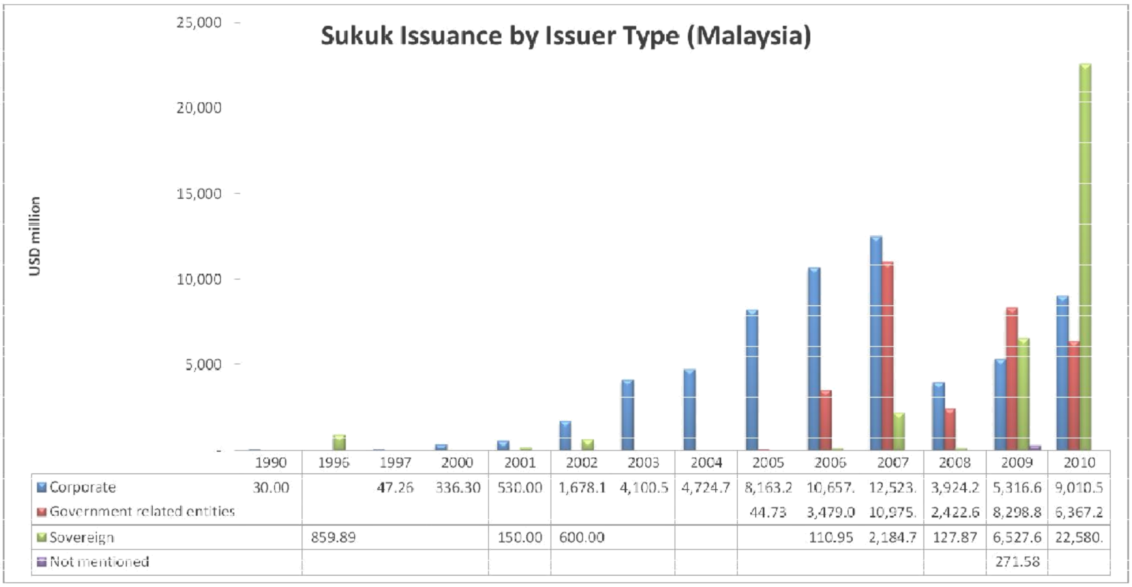

Figure 9: sukuk issuance by type of issuer in Malaysia (USD mil)
Source: IFIS and RAM Ratings (2010)

2.2. Keys of Success

Different development tools and innovation policies contributed to the development of the Malaysian sukuk market and ensured its sustainable growth and success. It is fundamental to understand the strategies that were adopted to enhance the Malaysian sukuk market.

a. Strong Regulatory and Legal Framework

The first key factor for the success of the Islamic capital market in Malaysia is the establishment of a strong and highly developed regulatory and legal framework. The Malaysian government worked on developing a regulatory and legal authority that brought greater clarity to the regulatory treatment of sukuk, which, in turn, provided a strong regulatory certainty to Islamic financial institutions with regard to their investments in these instruments. The highest main authorities that govern the legal infrastructure are Bank Negara Malaysia (the Central Bank of Malaysia) and Securities Commission. Those two institutions offer a wide and clear range of regulations that helped organize and standardize the sukuk market activities and the whole Islamic financial system in general. Malaysia is also continuously collaborating with other authorities to ensure financial stability in the Islamic financial system. Furthermore, Malaysia is actively involved in the Islamic Financial Services Board (IFSB), the Islamic Financial Stability Forum (IFSF), the initiatives of the Islamic development Bank (IDB), and the newly formed International Islamic Liquidity Management Corporation (IILM) (Mohd Zin, 2011).

b. A Well Defined Shariah Governance Framework

Malaysia has a well-defined shariah governance framework that played a prominent role in the development of Islamic finance and the sukuk market, in particular. The Shariah

Advisory Council (SAC) of Bank Negara Malaysia was established in 1996 as the highest authority in Islamic finance in Malaysia by the Securities Commission.

With the help of the Islamic Capital Market Unit in the Securities Commission, the SAC contributed enormously to the creation of a more organized and efficient sukuk market. It has the authority to ascertain Islamic laws for the purposes of the Islamic capital market and is responsible for the validation of all its products. Each Islamic financial institution has its own advisory council that works under the authority of the SAC of Bank Negara Malaysia. This entity contains researchers in Sharia law and finance, academics and scholars in shariah, jurists, Mufties, experts in Islamic finance, and market practitioners whose role is to advise SC on matters relating to the Islamic capital market and to provide Shariah guidance on Islamic capital market transactions and activities. Councils serve to ensure compliance with Shariah principles of all sukuk issuances and support innovation in sukuk structuring. Such step brought a higher confidence and credibility towards the Malaysian sukuk market (Jalil, 2005).

c. Human Capital Development

The continual innovation in sukuk structuring and the impressive advances in the sukuk market would not have been possible without an experienced human capital in the Islamic finance industry. The human capital development in Islamic finance and Shariah interpretations was a priority for the Malaysian government so as to provide highly skilled and qualified professionals in the Islamic capital market. Accordingly, the International Centre of Education in Islamic Finance (INCEIF) was established in 2006 for the advanced training of practitioners in Islamic finance, and in 2008, the International Shariah Research Academy (ISRA) was established to conduct applied Shariah research on contemporary Islamic finance issues and provide a background for active international engagement among Shariah scholars (Mohd Zin, 2011).

d. Comprehensive Islamic Financial Infrastructure

Ab Majid (2011) stated that the Islamic capital market situation was extremely strengthened by the existence of a complete, matured and well-established Islamic financial system with all the key components of the financial system, comprising Islamic banks, takaful operators, and fund management companies. These elements of the Islamic financial system do not only facilitate sukuk issuance and distribution but also stimulate the supply and demand for sukuk by offering a broad investor base. According to the Malaysia International Islamic Finance Centre (MIFC), the number of Islamic banks in 2011 was about 36 banks and the number of takaful companies was about 13 institutions.

e. Sukuk Structuring Innovation and Finance engineering Enhancement

Malaysia represents a leading innovator in the field of Islamic finance, especially in the sukuk market. Scholars and financial experts, under the SAC supervision, developed many innovative and sophisticated sukuk to meet the different requirements of market players. The proliferation of new types of instruments with extended maturity profiles has generated a diversified range of players, both local and foreign, to participate in the market (Mohd Zin, 2011). Moreover, to increase the sukuk competitiveness, the use of risk hedging tools was a necessity to cover the different risks associated with sukuk, bearing in mind that the use of the risk management tools of conventional finance was inappropriate in that they are do not comply with Islamic Shariah. Accordingly, Malaysia worked on improving finance engineering to create and develop risk management tools that respect Sharia principles, such as the Bai Salam futures (Ramsey, 2010).

f. Competitive Prices

The Malaysian government offered various incentives to support the sukuk market by keeping the sukuk issuance cost cheaper than that of conventional bonds. It offered several tax and regulatory privileges that included the following:

- Special Purpose Vehicles (SPVs) used for the issuance of sukuk are not subject to the administrative tax procedures under the income Tax Act 1967;

- Companies that establish SPVs are given tax deductions on the cost incurred by SPV for the issuance of sukuk;
- The issuance cost for all Islamic securities approved by the Securities Commission are also eligible for tax deduction; and
- Stamp duty exemption is given on instruments relating to Islamic securities issued under the MIFC until 31 December 2016.

g. The MIFC Initiative

Several measures have been taken to further develop the Malaysian sukuk market. For that purpose, the government took a very important step, namely the launching of the MIFC initiative in 2006, which aimed to boost Malaysia as the international Islamic financial hub and the centre for sukuk origination worldwide. It sought to facilitate the growth of investments in Islamic financial markets and to provide linkages with international issuers and investors. The MIFC Initiative has received global recognition; at the second Annual London Sukuk Summit Awards of Excellence in 2008, the MIFC was voted as the Best international Finance Centre for its efforts in developing the Islamic financial industry.

Another prominent initiative was the liberalization of regulations and foreign exchange administration rules that allowed foreign issuers to raise sukuk in the Malaysian capital market. This led to several issuances of Islamic bonds by supranational agencies, such as the International Finance Corporation and the Islamic Development Bank.

These two initiatives contributed to the widening and deepening of the sukuk market by providing the operational flexibility and cost-effectiveness needed for the flourishing of Islamic-financed businesses in international currencies.

h. A High Technological Infrastructure

The availability and accessibility of market information is highly valued by market players for it ensures the efficient functioning of the capital market (Ganiyat A., 2009). To boost liquidity and enhance transparency in the Malaysian capital market, several improvements have been introduced to the information technology system of this market.

In his paper "*Malaysian Sukuk Trading and Information System: An Overview.*", Ganiyat A. (2009) focused on three technological systems, namely FAST, RENTAS and ETP.

- FAST (Fully Automated System for issuing/Tendering) is responsible for sukuk issuance and their introduction to the market. It was introduced in 1996 to ensure the communication of all relevant information about the sukuk, such as the bidders, subscribers, underwriters, business registrations, etc.

- RENTAS (Real-Tile Electronic Transfer of Funds and Securities) was established in 1999 to ensure sukuk trading in order to facilitate settlement transactions on government securities and secondary markets.
- ETP (the Electronic Trading Platform) was introduced in 2008. It allowed for the diffusion of all trading information to facilitate secondary trading and settlement activities on primary and secondary capital market.

Information technology played a significant role in the enhancement of the Malaysian sukuk market. It has improved the efficiency and transparency of the market by facilitating the access and transmission of all information related to sukuk issuance and trading.

2.3. Malaysian Sukuk Issues

The Malaysian sukuk market has clearly witnessed significant success and growth in terms of size and number of issuance. It has, nevertheless, recorded a number of sukuk default cases. According to the Rating Agency Malaysia (2010), 24 default cases were registered in the sukuk market during the period between 1997 and 2009. Most of the cases were structured based on Murabaha and BBA contracts.

Sukuk Type	MARC	RAM Rating	Total
Murabaha	9	4	13
Ijarah	1	-	1
BBA	8	3	11
Total	18	7	25

Table 3: Defaults number recorded in Malaysia 1997-2009

Murabaha and BBA are considered as debts. In the Malaysian approach, Malaysian scholars have applied the concept of Bai Al-dayn or the sale of debts. Consequently, this kind of sukuk can be traded in the secondary market. Several scholars criticized this kind of sukuk and thought that Murabaha and BBA sukuk open the door back to interest (Jalil, 2005).

Bai Al-dayn is a highly controversial issue due to differences in perspectives between Shariah scholars in various Muslim countries. In GCC, sukuk based on Bai Al-dayen, such as

BBA and Murabaha, are tradable and negotiable in the secondary market only at their face value (Lahsasna, 2012). Rosly and Sanusi (2008) also indicated that Bai Al-inah and Bai Al-dayn contracts are extensively used in Malaysia. Both types of contracts were rejected by most Islamic scholars.

The Shariah compliance issue and the divergent opinions of shariah scholars worldwide caused a central problem in the sukuk market. To save the reputation of the sukuk market and maintain the interest of international market players, Malaysia should avoid mimicking conventional bonds in its sukuk structuring and seek innovation with respect to Shariah principles. Malaysian scholars should also discuss all Shariah issues with the scholars of other countries so as to standardize opinions and principles.

3. The Case of Tunisia

3.1. The Potential Impact of Sukuk Issuance in Tunisia

Tunisia has recently started to make its first serious steps in Islamic finance and to seek benefit from the successful experiences of other countries. The introduction of sukuk in Tunisia represents a great opportunity of growth since these instruments represent a resourceful means for liquidity and efficient tool for having access to additional international monetary funds, especially from the GCC.

In fact, sukuk offer a number of advantages that are highly valuable for the Tunisian context. They are backed to real assets, a feature that provides strong links between the financial activity and the real economic activity which will reduce exposure to several risks and ensure long-term stability. Sukuk are also widely used in large-scale development projects and can contribute enormously to the economic growth of the country, thereby mitigating the effects associated with inflation. Furthermore, these instruments can help the Tunisian government to cover its budget deficits by mobilizing and collecting national and foreign funds to finance large-scale projects as has previously been the case in Malaysia. Several important projects are pending in different sectors. Some of these are presented in Table 4 below.

Project	Size	Type of sukuk
The Tunisian Solar Plan	DT 3600 million	Istisna
Raleway Line (Tunis Kasserine)	DT 162 million	Ijara, Musharakah, Istisna
Highways	DT 1740 million	Ijara
Air Transport (Plane acquisition)	DT 1600 million	Ijara, Murabaha

Table 4: Exemple of Projects in Tunisia to be funded by Sukuk

Furthermore, the diversification and flexibility of sukuk structures provide a wide range of choices that can meet the different requirements of economic players and be used in various sectors. Tunisia can, for instance, invest in the agricultural sector using Mouzaraa sukuk and in the industrial sector using Istisnaa sukuk.

Moreover, sukuk are very useful for the financing of small and short-term projects. Tunisia is known as a small country with limited resources. The investment in small businesses is, therefore, very important for the country so as to encourage people to create their own businesses using small budgets. Artisans and small entrepreneurs can, for example, purchase the materials necessary for their business using Salam and Murabaha sukuk.

Finally, under the principle of sharing profit and losses, sukuk provide a fair trade that encourages investors. They also serve to attract and mobilize funds from new categories of investors, especially those who seek to invest in shariah-compliant products.

3.2. Policies and Measures Taken to sukuk Issuance

The use of the Malaysian experience as a reference model for Tunisia is appealing for various reasons. First, the Malaysian sukuk market is the oldest and most mature in the world. Second, it is highly structured by a regulatory and legal framework and a well-defined Shariah governance framework. Last but not least, it is the most standardized and successful model. The following sections will be devoted to describing the situation of Tunisian capital market and the different policies and measures taken by the Tunisian government and the different financial institutions to ensure the success of the first issuance of sukuk in Tunisia in comparison with the Malaysian example and to assess the readiness of Tunisia for the application of this new Islamic financial tool.

a. Regulatory and legal framework

During the last decade, the Tunisian capital market has witnessed a considerable evolution in its regulatory and legal framework in an attempt to improve its performance and attract investors and issuers from inside and outside the country. As Islamic finance represents a promising opportunity to access new resources of funds, the Tunisian government started, since the beginning of 2012, to prepare for a suitable legislative framework that ensures the safe introduction of new Islamic financial tools, such as sukuk, and allows for the improvement of the currently available ones. The government has appointed seven committees to enact the appropriate regulations related to the different products of the Islamic finance industry (waqf, Takaful, zakat, sukuk…). These committees are assisted by a team of highly qualified experts coming especially from the GCC. The sukuk regulations are mainly inspired by the Kuwaiti law which is considered as the most recent and comprehensive one. These regulations are expected to be ratified by the Constituent Council soon.

b. Shariah Board

Tunisia is currently working to create a supreme shariah board that comprises shariah scholars, academics, jurists, financial experts, and muftis, such as Sheikh Mokhtar Sellami whose skills and expertise are well-known worldwide. Those members are expected to discuss and adopt conclusions on different issues related to the compliance of different Islamic financial products with shariah and to supervise financial transactions.

c. Human Capital Development

The need for highly trained graduates and experienced market players in the Islamic finance industry is a prerequisite to ensure the safe introduction of the different Islamic financial products under consideration and the success of their transaction systems. In fact, several programs were launched to introduce various Islamic finance concepts, familiarize economic actors with new Islamic finance notions, and prepare a pool of experts in the field.

The government focused on the academic side of the issue by setting novel educational programs that aim to prepare highly qualified graduates in Islamic finance for the labor Market. In fact, the Faculty of Economics and Management of Sfax (Faculté des Sciences Economiques et de Gestion de Sfax –FSEGS) has started a new master in Islamic Economics and Finance. The High school of Economic and Commercial Cciences of Tunis (Ecole des Sciences Economiques et Commerciales de Tunis –ESSECT) has also launched an executive MBA in Islamic Finance. Last but not least, the Institute of Higher Commercial Studies of Sfax (Institut des Hautes Etudes Commerciales de Sfax) has organized an executive master in Islamic finance.

Financial institutions, Islamic and traditional, have also been involved in the process. To keep up to date and catch up with the rapidly changing innovations in the financial sector, most of the institutions paid extreme care to ensure intensive training programs to their staff in collaboration with the well-known training institution CIBAFI (General Council for Islamic Banks and Financial Institutions).

Furthermore, several Islamic financial associations were created, including ASTECIS (Association Tunisienne de l’Economie Islamique) et COFIT (le Conseil de la Finance Islamique Tunisien). These associations have had significant contributions in the introduction of Islamic finance through forums, seminars, conferences, and training with the help of foreign experts from different countries, such as Kuwait and Saudi Arabia.

d. Islamic financial institutions in Tunisia

The number of Islamic financial institutions currently available is very limited. In fact, it has only two Islamic banks, namely the Zitouna Bank and Albaraka Bank, and one Islamic insurance company, namely the Zitouna Takaful. The Zitouna Banc is trying to raise the number of its agencies during the upcoming five years by one hundred agencies. Albaraka Bank has obtained a government permission to open new agencies after becoming a regulated onshore institution. In the meantime, several traditional banks have expressed willingness to open Islamic finance windows and agencies, including the STB (Société Tunisienne des Banques). Several other international Islamic banks, especially from GCC, are also planning to open new agencies in Tunisia. These measures will stimulate the supply and demand for Islamic financial products, particularly sukuk, by raising the number of market players interested in Islamic finance.

e. Tunis Financial Harbor Project

The Tunis Financial Harbor (TFH) project is expected to fulfill the long-term goals and aspirations of boosting Tunisia as a financial centre in North Africa. The idea of the project was announced in 2007. The constructions started in 2010 and were then stopped in 2011 because of the revolution events. In 2012, the Gulf Finance House of Bahrain, the major responsible for the project, resumed the construction work.

The TFH project is expected to create approximately 16 000 new skilled jobs across the financial, service, human resources and regulatory communities. It is estimated to attract several international financial institutions, investors and economic players. This policy will activate the whole Tunisian financial system, including the Islamic finance sector.

f. Advanced technological trading in the Tunis Stock Exchange Market

Since 1996, the Tunis stock exchange market (la Bourse de Tunis) was based on a highly technological system, namely the NSC UNIX system based on the SUPERCAC technology developed by the Euronext group. This system is already used by several developed stock exchange markets (Paris, Chicago, Toronto, Sao Paolo, and Brussels). The Tunis stock exchange market was the first Arabic and emergent stock market that adopted the technology of SUPERCAC UNIX. This advanced technology helped to improve the transparency of the market and to ensure the diffusion of information to the different market players in real time. This exchange market is also directly linked to the international agency Reuters and Bloomberg.

When the key factors contributing to the successful experience of the Malaysian sukuk Market and the policies and measures available in the Tunisian context are compared, it can be concluded that Tunisia is almost ready to make a first relative successful sukuk issuance. It is also worth noting that learning from the successful experiences and pitfalls of other countries is conductive to principled success. Avoiding previous sukuk defaults, such as the Shariah compliance risks in Malaysia and regulatory issues in Dubai (2009), will shorten the process and smooth the progress towards success for Tunisia. The current facts and considerable efforts made by the Tunisian government are good signs for an optimistic future for sukuk in Tunisia.

4. Conclusion and Recommendations

The success of the Malaysian example as an Islamic financial hub and largest sukuk market worldwide motivated several countries, including Tunisia, to introduce this tool into their capital markets. Sukuk represent a promising opportunity for economic growth in Tunisia. They can help the government to afford significant amounts of liquidity to fulfill many large-scale projects, such as infrastructure projects. They offer an attractive alternative of funding and investment. Tunisia is trying hard to prepare a supportive environment for the launching of this new instrument. In spite of all the policies and measures taken in Tunisia, several challenges remain to be resolved before this goal can be achieved. In fact, the Tunisian capital market is very small sized in comparison to the other markets in the world. The introduction of a new financial tool is very risky as the reaction of market players still remains unknown and uncertain. The capital market also suffers from the lack of Islamic risk management tools to hedge the risks associated with sukuk.

The Tunisian government is recommended to make much more efforts and preparations to face all potential challenges. It should place competitive Tax incentives to encourage Islamic finance industry activity, especially the future sukuk market. It should also increase the number of Islamic financial institutions to stimulate the supply and demand. In addition, it should be precautious so as to avoid sukuk defaults and work on developing islamic risk hedging tools to improve sukuk performance. It should also be innovative in sukuk structuring and Islamic finance engineering. Last but not least, Tunisia should ensure a stable political climate to attract the investment of local and foreign market players.

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