“Islamic Economics and Finance” and an “Islamic Tunisia”

Jihed MEJRISSI

Phillips-Universität Marburg

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Abstract

This paper seeks to verify the accuracy of claims that an “Islamic economy” is “the solution” to current economic and financial problems, and assesses the alleged sustainability and ethicality of “Islamic finance” in theory and in practice, and whether “Islamic economics and finance” may or not be instruments of the economic integration of countries with a Muslim-majority in the Middle East and North Africa, with a particular focus on Tunisia.

Keywords: “Islamic economics and finance”, “Islamic economics”, “Islamic finance”, criticism of “Islamic Economics”, criticism of “Islamic Finance”, incoherencies of “Islamic economics”, incoherencies of “Islamic finance”, Tunisia, “Islamic economics” in Tunisia, “Islamic finance” in Tunisia

JEL Codes: A10, B29, N15, P40, Z12

1. Introduction

Following the political shifts in the Middle East and North Africa (MENA) and the Islamist regimes or governments recently on power (MAGINNIS, 2011) (RAMDANI, 2011), demands for further legal recognition, financial sponsoring, or constitutional inclusion of “Islamic economics and finance” in the future-to-be constitutions echoed far more noticeably (الوطن تنشر مسودة مشروع قانون مصكوك التمويل الإسلامي 2012). And regardless of the nature of their motivation, “sharia-based economics” have managed to attract a substantial number of supporters and to gain an alleged “ethical” reputation, as opposed to what some of its supporters refer to as “greedy Capitalism”.

The case of Tunisia is assessed as the State is currently preparing its second constitution and such claims and demands take place often with populist political parties such as Hizb Uttahrir² and Islamist groups such as “Ahl Assunna Wajjamaa”³, or “Ansar Asharia”⁴ attracting a considerable media attention through demonstrations calling for an “Islamic State” that applies “Islamic economy”. Even Ennahdha, the supposedly-moderate Islamist political party, has stated its

1 An example is provided here: http://www.eltwhed.com/vb/showthread.php?11310-%C7%E1%DD%ED%6C7%E4-%C7%E1%C5%D3%E1%C7%E3%ED-%ED%E4%CA%D4%E1-%C7%E1%D1%C3%E3%C7%E1%ED%C9-%C7%E1%CC%D4%DA%C9, the link puts “Islamic economics” as a rampart against “hungry capitalism”. Moreover a Google search for the exact terms “الرأسمالية الجشعة” Arabic for “greedy capitalism”, yields almost 19.500 results.

² “حزب التحرير”
³ “أهل السنة و المجامعه”
⁴ “أنصار الشريعة”

Jihëd MEJRISSI

February 2013
intentions and adherence to “Islamic finance” both in its 2011 political program and after winning the relative majority in the country’s 2011 constitutional assembly (جهود لتطوير التمويل الإسلامي بتونس, 2012). In this essay, the main questions will be the actual feasibility of such claims in view of the recent political alterations.

2. Overview

In its broader sense, “Islamic economics” or “Islamic economic jurisprudence” is the collection of principles regulating an economic activity in compliance with the sharia or Islamic law. One of the cohorts of “Islamic economics” is “Islamic finance” or banking-related activities compliant with Islamic law.

2.1. Historical Background

Muhammad, in a speech delivered during what is referred to as the last pilgrimage⁵, has somehow provided a religious foundation for an Islamic proto-capitalism with his saying: “و ان ربا الجاهلية ممنوع و لكن نكم رؤوس أموالكم”, roughly transliterated as “wa enna riba eljahilya mamnoue we leken lakom rou’oussou amwelikom” and translated as “and the interest of the pre-Islamic era is forbidden but you have your capitals”. And although this might imply that the Capitalist pillar principles of private property, security of contracts, and freedom of exchange would be guaranteed and applied, the Soviet Leninist propaganda used Islam as one of the elements of its Socialist propaganda in the “korenizatsiya” or “nativisation” policy in former Soviet republics with a majority of Muslims (CROUCH, 2006). Even prior to the “korenizatsiya”, the Muslim Socialist Committee of Kazan⁶ and the Waisi Muslim movement sympathised and supported the Soviet revolution, with the latter even serving in the red army. In the MENA region, Sudanese Communist propaganda publicly used excerpts from the Qur’an to advocate Socialism (العرضي, 2012).

In proto-Central Banks of the “Islamic States”, only gold or silver coins qualified as money. Fiduciary money was rejected by Imam Malik, to whom the Sunni Maliki branch is attributed, even

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⁵ “حجة الوداع”
⁶ “Мусульманский социалистический комитет”
with Umar, the influential second Rashidun Caliph, being the one behind the attempt to make camel skin a circulated currency (AL-AMINE, 2008). Moreover, the authority in charge of money minting or seigniorage is assumed to be “the ruler”. Reportedly, Imam Nawawi, a notable Shafii scholar, and Ahamd Ibn Hanbal, to whom the Sunni Hanbali branch is attributed, insist that only “the ruler” can mint coins. Similarly, Ibn Khaldun states that “the ruler should mint the coinage and preserve its standard”.

On a more technical level, “Islamic economics” would, among other, prohibit operations and investments in sectors related to alcohol, gambling, swine meat, prostitution, or any other sharia-excluded element. The “zakat”, a tax on certain goods and assets that should be paid to a central authority, would be imposed on Muslims, and non-Muslims living in “Islamic countries” would be obliged to pay the taxes of “jizya”, “ushr”, and debatably the “kharaj”. “Islamic banking” would enforce risk sharing in loans and would prohibit “riba” or interest\(^7\) and “gharar” or chance / misleading, i.e. the presence of contractual uncertainty. It would also outlaw insurance in its conventional form, with life insurance considered “the worst form of all”\(^8\).

Historically however, Caliphate States and the subsequent “Islamic States” limited, yet never completely banned, alcohol consumption, prostitution, and other “haram” or “sinful” businesses (BENNISON, 2010). The ban on alcohol was the least practiced and some historical and Islamic scholarly sources provide passages depicting Heads of States publicly praising alcohol in times where “Islamic States” prospered. Alwalid Ben Yazid is one very notable example. Moreover, fiscal policies were carried out in the form of “zakat” paid by Muslims and “jizya” paid by non-Muslims living in “Islamic countries” as well as “non-Islamic countries” subjugated to “Islamic countries”. Allegedly, non-Muslims also had to pay other taxes such as the “kharaj” and the sum of the taxes imposed on non-Muslims was noticeably larger than the “zakat” tax collected from Muslims, which stimulated

\(^7\) Two types of “riba” exist and the Scriptural prohibition concerns only one of them; the subsequent ban came to prevent the usage of the other type as circumvention of the explicitly prohibited one.

\(^8\) Allegedly, if one subscribes to life insurance, it would imply a lack of faith in Allah.
conversion to obtain tax relief (PARSONS, 2010). Financially, multiple accounts report that interest was often circumvented through financial ruses (IMRAN, 2010) (THOMAS, 2005). An example of these ruses is the “double sale”, described as follow: First, the borrower and the lender agree on the amount, interest, deadline... etc., for example 100 euros (EUR), for one year, at an interest of 10%, this means that the borrower will repay the lender 110 EUR in one year. Second, the lender then sells an item, any, to the borrower for 110 EUR constituting the sum of the initial and the interest payable in a year. The borrower then sells the item back to the lender for 100 EUR payable instantly. This way, the borrower ends up with the borrowed 100 EUR, and the lender ends up with his item back and expecting 110 EUR in one year. And while most of the ruses were technically legal and “halal”, they were constantly subject to debate and were rejected by many scholars.

Throughout history, “Islamic economics” underwent a tremendous shift from conceptualisation to application. Moreover, many concepts that were not considered an option were later relaxed or circumvented, and inversely.

2.2. Current Framework
Post-colonialism gave the application of “Islamic economics” a push forward as a by-product of a politically-motivated tendency to “Islamise” all aspects of the society in order to “counter the colonalist non-Muslim lifestyle” in many countries, despite the fact that many of these countries were themselves colonised by Arab Muslims at earlier times. The literature developed and old concepts were repackaged to cover new economic concepts that were not present in the early days of Islam.

Pioneering “Islamic economics” scholars were mainly Shia Muslims, such as Mahmud Taleqan, Mohammad Baqir Assadr, Abolhassan Banisadr, and Habibullah Peyman. And while the latter advocated a socialist-like “Islamic economy”, i.e. industrialised welfare State with public ownership of the land and “a reasonable limit for private businesses”, the most commonly-found model was
closer to a capitalist economy where private property thrives next to participation in risks, zakat, and sharia-compliant heritage laws, among others.

The first international conference on “Islamic Economics” took place in February 1976 and was held at the King Abdulaziz University in Saudi Arabia. The focus has ever since been, almost-exclusively, leaning towards the financial aspect that may have seemed more feasible in application and more profitable. Debatably, the first “Islamic bank” was the “Dubai Islamic Bank” in 1975 (Le Système Bancaire Islamique, Guide à l’Intention des Petites et Moyennes Entreprises, 2011), however EL HUSSEINI (1988) provides another doubtful different timeline with the first bank being the “Nasser Social Bank” established in 1972, followed by the “Philippine Amanah Bank” in 1973, and then the “Islamic Development Bank Jeddah” and the “Dubai Islamic Bank” in 1975. The first crescendo of “Islamic banking” took place in Southeast Asia, particularly in Malaysia and its neighbouring countries with a majority of Muslims, and was initially motivated by, aside from the ideological intention, an aspiration to challenge aspiring neighbouring financial markets such as Hong Kong and Singapore. Later, Gulf countries picked up the pace of the then-more-developed market to counterbalance the migration of long-established customers to “Islamicly window-dressed banks” in other regions, and to retain a slice of the estimated 1.5 trillion United States dollars (USD) wealth of the region.

The growth was further sustained by the high demand on “halal-branded products” that characterises Muslim population around the world, coupled with oil and gas rents of the MENA region, and the number of “Islamic banking” institutions has been increasing and has reached 300 institutions in more than 50 countries in 2008. The table below shows that in 2009, Iran headed the ranking of countries in sharia-compliant assets, followed by the Kingdom of Saudi Arabia and the rest
of the Gulf countries. Moreover the “sukuk”\textsuperscript{9} market witnessed an important growth, with Malaysia being the major issuer of more than 25 billion USD of “Islamic bonds”. (JOBST).

<table>
<thead>
<tr>
<th>Country</th>
<th>Sharia-compliant assets in million USD</th>
<th>GDP in 2009 in million USD</th>
<th>Percentage of sharia-compliant assets to GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>837.5</td>
<td>138,119.9499</td>
<td>0.61%</td>
</tr>
<tr>
<td>Egypt</td>
<td>6,299.7</td>
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<td>3.33%</td>
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<tr>
<td>K. S. A.\textsuperscript{10}</td>
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<td>376,693.3333</td>
<td>33.95%</td>
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<tr>
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Source: Author’s calculations based on data from World Development Indicators and The Banker - Top 500 Islamic Financial Institutions (2009).

On the other hand, North African countries and Egypt seemed rather unenthusiastic towards “Islamic Banking” due to multiple factors, and the vast majority of the established “Islamic banks” in the region were Saudi or Bahraini initiatives and had Gulf-based parent companies and shareholders. As the table below shows, the totalled sharia-compliant assets of Algeria, Tunisia, and Egypt did not exceed nine billion USD in 2010.

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</tbody>
</table>

\textsuperscript{9} From the Arabic “ﺻﻜﻮﻙ”, transliterated “soukouk”, an “Islamic finance” alternative for bonds.
\textsuperscript{10} K. S. A. is an initialism of Kingdom of Saudi Arabia.
\textsuperscript{11} U. A. E. is an initialism of United Arab Emirates.
However, despite its seemingly immense growth rates that could be observed when comparing the 2009-figures of table 1 and the 2010-figures of table 2, the global share of “Islamic banking” is estimated to be no greater than 5%, echoing the relative infancy of the sector. The subsequent sections will detail and assess some of the hindering incoherencies and lacunas of “Islamic economics and finance”.

### 3. Theoretical and Practical Challenges: Are “Islamic Economics and Finance” More Sustainable?

To understand what a simplified modern form of “Islamic economy” would mean in theory, the reader could imagine a profit and loss sharing (PLS) economic system with some tweaks in order to render it sharia-compliant: The economic agents would lend and borrow money without interest and would share the eventual profits or losses of ventures, and money would be pooled in “swamp” banks or financial institutions, which would in turn pool the money in a “swamp” central bank. The Islamic tweaks would be the prohibition of some sectors, the imposition of different taxations on Muslims and on non-Muslims, abiding by other sharia laws in miscellaneous issues (EL HUSSEINI, 1988), and debatably the use of a non-fiduciary currency, typically gold or silver (AL-AMINE, 2008).

#### 3.1. Risk
Much like any other interest-free economy, an axiomatic element of “Islamic economics and finance” is the will to invest in risk: awaiting a fixed income is not an option. In such a system, economic agents base their involvement, and hence their estimated income, with the level of risk to be taken.

In this context, basing the entire banking system on risk-pooling could substantially jeopardise the economy as a whole, as a relatively-small toxic asset could cause a substantial domino loss, provided its relevance and the holders’ attitude towards risk. Moreover, in the Islamic PLS system the lender cannot demand a warranty or the compensation of his or her capital. The nature of this risk sharing means that, should a “mudharaba” fail, both the bank and the entrepreneur go home and lose both the principal and the sweat. The same applies to loans where instead of interest, a service fee may be charged but it has to be a fee that does not depend on the maturity of the loan. In the case of the inability to repay, no interest or fine may be charged as it explicitly contradicts the sharia\textsuperscript{12}. Such vulnerability could be exploited by debtors who could deliberately delay the payment.

Another risk is added in “silm” and “istikanaa” contracts, which are deferred payment contracts, namely the risk of commodity management, and the Islamic prohibition of insurance in its conventional form does not make such scenarios brighter. Furthermore, while the bank cannot have a control over the agent entrepreneur, as it would be contrary to sharia law, restricting investments would greatly discourage economic agents.

3.2. Capital and Interest

In theory, “Islamic banks” would lend and borrow without interest and would share the risks and the revenues in a way more or less like an investment company or a mutual fund, as neither the capital nor the return on investment are guaranteed. In practice however, while investment companies offer their capital for public sale, “Islamic banks” accept deposits from the public but do not grant voting rights as long as they do not own any portion of the bank’s capital, which is

\textsuperscript{12} This type of interest is referred to as the “interest of jahiliya”, in Arabic “ربا الجاهلية”, transliterated as “riba eljehiliya”, and is explicitly prohibited, as stated previously in footnote 7.
allegedly in contrast with the above-stated Islamic view of co-property of the bank by those pooling their money within it. The table below further compares the differences between “Islamic banks” in practice and conventional banks.

<table>
<thead>
<tr>
<th>Features</th>
<th>“Islamic Banking”</th>
<th>Conventional banking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guarantee of the capital value of:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Demand deposits</td>
<td>- Yes</td>
<td>- Yes</td>
</tr>
<tr>
<td>- Investment deposits</td>
<td>- No</td>
<td>- Yes</td>
</tr>
<tr>
<td>Rate of return on deposits</td>
<td>Uncertain, not guaranteed for investment deposits. Demand deposits are never remunerated.</td>
<td>Certain and guaranteed</td>
</tr>
<tr>
<td>Mechanism to regulate final return on deposits</td>
<td>Depending on bank performance / profits from investment</td>
<td>Irrespective of bank performance / profits from investment</td>
</tr>
<tr>
<td>Profit-and-loss principle applies</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Use of “Islamic modes of financing”: PLS and non-PLS modes</td>
<td>Yes</td>
<td>Non-applicable</td>
</tr>
<tr>
<td>Use of discretion by banks with regard to collateral</td>
<td>Generally not allowed to reduce credit risk in PLS modes. By way of exception, may be allowed to lessen moral hazard in PLS modes.</td>
<td>Yes, always.</td>
</tr>
</tbody>
</table>

Source: SUNDARARAJAN & ERRICO (2002)

Moreover, the frequent interactions of “Islamic finance” and conventional finance help in shedding more light on the contradictions of the former. First, conventional banks with “Islamic branches” or offering “Islamic products” raise a question concerning the extent of usage of the revenues within the bank’s financial web, particularly the sectors qualified by Muslims as “haram”. Second, even with the assumption that an “Islamic subsidy” is controlled or that it acts as a separate entity and keeps the revenues of its “Islamic products” separate from those of the conventional products, in most systems the bank is connected to the central bank and other banks in the interbank lending market, of which the main instrument is the, unsurprisingly “haram”, interest rate. Any “Islamic financial institution” of any size will ultimately have to deposit or borrow from the national or global financial markets, which would bring us back to the beginning. Attempts to establish a “halal” transnational interbank lending market have not proven to be very effective for...
multiple reasons, mainly because the different sovereign monetary policy objectives could not have been comprehensively taken into account, and not least due to the Islamic restriction on repo and forward operations.

3.3. Regulation and Biasedness

While theoretically-oriented criticism, from within the field itself, acknowledges that “Islamic economics and finance”, as practiced today, “do not reflect the teachings of Islam in a genuine way” (CHAPRA, 2008), the most common lacunas seem to be specifically related to the regulatory aspect. This issue has reportedly led the League of Arab States and the Customs Union of the Gulf Cooperation Council (GCC) to outsource the establishment of authorities in charge of “sharia-compliant regulations” to “Western institutions”. The lack of “a common approach on regulatory frameworks” and “the lack of transparency in operations” were also allegedly reported by KPMG (ALQASSEMI, 2007).

One example of regulatory conflicts occurred in November 2007 when the Bahrain-based “Sharia Committee of the Accounting and Auditing Organisation of Islamic Financial Institutions” stated that 85% of the “sukuk” issued in the GCC do not concur with the sharia\(^\text{13}\) (HESSE, JOBST, & SOLÉ, 2008). Most intra-Muslim “fatwas” of “non-conformity with sharia” seem to be motivated by an ambition to disqualify competitors and an attempt to market the fatwa issuer’s own financial products, especially with a struggling cross-border acceptance for bonds even in Malaysia (INCEIF, 2012), qualified as the world’s most important “Islamic finance” centre (BAHRU, 2013). In some cases, the intense involvement of religious lobbies made circumventing the prohibitions an even more difficult task\(^\text{14}\) that further hinders the attainment of economic goals despite the relative advancement in related human and other resources. On the other hand, the competition over “who gets to be the referencing authority” have, almost laughably, resulted in a rivalry in the relaxation of

\(^{13}\) Most “sukuk” have been sold with a guarantee to repay the full notional at maturity or a restructure and a pay-out of a conventional bond in case of default. This contradicts the profit and loss sharing principle (HESSE, JOBST, & SOLÉ, 2008).

\(^{14}\) One example from Southeast Asia was declaring the circumvention of the prohibition of repo markets the same as selling “halal” wine.
the interpretation of the Islamic texts and at the same time in dubbing the “fatwas” of other authorities as “haram” or “unlawful”. The term “lack of central authority” has somehow become a euphemism for “where do we want “haram” to stop”.

An example of partiality in regulation occurred when the highest Islamic authority of Malaysia issued a “fatwa” prohibiting foreign exchange trading for individuals and allowing it for commercial “Islamic banks” under the supposition that they are “obliged” (Fatwa : le Forex Trading est haram pour les particuliers, 2012). This “fatwa” fuelled a controversy between opponents who interpreted it as “a religious green light to a corporate monopoly of the sector” and supporters who called it “an obligatory resort in a corrupt system of monetary exchange that should be based on non-fiduciary currencies, as the sharia commands”.

To put it in a metaphor, the issues of regulation could be perceived as follow: an economy undergoing “an Islamisation” could be compared to an economy undergoing “a Communisation”; in a way similar to the historical Sino-Soviet differences about “who is more Communist”, it can be observed that aspiring “Islamic economies” often have conflicting views about “what is more Islamic”. More importantly, the goal of achieving productivity and welfare through following ideological precepts will render the restructuring of the economy a colossal task that is more likely to reduce its efficiency for the sake of mere ideological motives. To put it in a comic way, further empowerment of sheikhs in economic decisions is almost the same as appointing a television evangelist as the Secretary of Finance, or handing the keys of the United States Federal Reserve to apocalyptic preachers.

3.4. Creation of Debt

Within the current framework of “Islamic finance” practices, one often circulated argument states that “Islamic banking” makes the unrestricted creation of debt less likely. While this may be correct in theory as the Scriptural principle in loans and sales is “doing business with only what you actually have”, it turns out that practice is a different matter: As a matter of fact, “Islamic banks”
were not entirely immune to debt crises and they would have probably not sustained the 2008 financial crisis if it were not for the Gulf’s monetary injections. And while still having avoided complex instruments and speculative activities, “Islamic banks” were subject to the decline in investor uncertainty and to the economic downturn, with escalating nonperforming loans in the MENA region and a considerable decline of return on assets and return on equity between 2008 and 2007 for the average “Islamic bank”, as the figures below show.

Figure 1: Return on Assets for “Islamic Banks” in the MENA region between 2006 and 2009

Source: SYED Ali (2011)

Figure 2: Return on Equity for “Islamic Banks” in the MENA region between 2006 and 2009

Source: SYED Ali (2011)
A notable counter-example to the debt restriction argument is the Dubai’s debt crisis of 2009 which showed that “sukuk” issuance helped in inflating the debt to unsustainable levels\textsuperscript{15}. Ironically, when “Dubai World” defaulted, the creditors and debtors agreed to a “conventional restructuring” of the debt (BAHRU, 2013).

The issuance of “Islamic bonds” is particularly characterised by its relatively high volatility: while having expanded between 2004 and the end of 2007, from 7.2 billion USD to around 35 billion USD, mostly owed to a favourable macroeconomic framework, large infrastructure investments in the Middle East, and beneficial market regulations, it has dropped by about 50\% to 15.2 billion USD in 2008 compared to around 20\%, i.e. 387 billion USD, for the structured bonds market (BAHRU, 2013).

Another often overlooked fact in “Islamic banking” is that “interest repackaging” actually occurs in practice with the same mechanisms as conventional finance and under different “Arabised”, “Islamic-friendly” names, for example the deferred payments contracts of “Tawarruq” or “Murabaha”. The camouflage of interest to fees is a seemingly common practice in nowadays most “Islamic products”.

3.5. Problems of Liquidity and Foreign Exchange

In general, the liquidity position of “Islamic banks” has been observed to be relatively higher than most conventional counterparts: for example the ratio of liquid assets to total assets was around one fifth for “Islamic banks” in countries of the GCC in the late 2000s. This may be explained by the absence of a dependable lender of last resort available for “Islamic banks”, and the lack of access to interest-free short-term investment opportunities as most common investments by “Islamic banks” require a gestation period\textsuperscript{16}.

\textsuperscript{15}Some enthusiasts of “Islamic finance” often claim that the “subprime” crisis occurred because of the usage of “riba” in “Western financial institutions”, which is not accurate as the crisis was mostly due to loans without sufficient assets, among other.

\textsuperscript{16}On a side note, it is alleged that the nature of some “Islamic finance” contracts, e.g. “mudharaba”, makes it imperative for the banks to keep the funds in the real economy in order to generate returns, hence a high asset utilisation ratio.
On the other hand, despite the advantageous liquidity buffer consisting of a retail depositor base, mostly in non-remunerated MENA-based accounts, “Islamic finance” lacks any clearly defined and universally accepted products that facilitate liquidity issues. High liquidity ratios, while probably making “Islamic banks” seem sustainable, reduce their efficiency and can be counter-productive compared to conventional banks.

Additionally, as already mentioned in 3.2., sharia restricts repo and forward operations, which complicates even further the tasks of “Islamic banks” in non-national currencies and exposes the banks to the risk of exchange rates. In order to hedge it, attempts for the circumvention of this prohibition have been put into place, mostly using a commodity as the middleman in a double sale. For example if bank A, operating in EUR, has to pay 100,000 USD in January 2013, it would have to buy a commodity, and then sell it for the required 100,000 USD with a deferred payment to be received in January 2013, thus securing the needed amount. The opposite happens if the bank expects a payment in a foreign currency, for example 500,000 Swedish kronor (SEK) in February 2013, and is concerned about the exchange rate. In this case the bank may acquire a commodity for 500,000 SEK, and disburse its value in a deferred payment, i.e. when the expected 500,000 SEK are received in February 2013. Clearly, this generates commodity management and other risks and is further complicated with increasing amounts, different currencies, and the presence or not of a liquid commodity market.

To conclude the section, it can be undoubtedly assured that there is no bank in the world currently doing business in a completely “halal” way, but only to extents of “halal”. Moreover, self-claimed “Islamic economies” are only applying an aspect of the theoretical view. This in turn impacts the perception of “Islamic economics”, and most certainly reveals its biasedness in marketing itself as a unique “third way”.

Aside from comments on other ethical issues that may have been previously mentioned in this article, the superposition of Islam, political agendas, and banking is of particular relevance to current political shifts. At first, while it is interesting to mention the concerns about possible ties between “Islamic banking” and the attempts of radical Islamist movements and radical Islamist terrorist groups to circumvent economic sanctions or be involved in money laundering, it is necessary to point out their potential irrelevance: The nature of “Islamic banking”, per se, does not favour such activities more or less than conventional banking does, however the interactions of the “Islamic” and the conventional, usually done through a middleman company, may seem similar to money laundering techniques, depending on the size of these interactions (EL-GAMAL, 2005).

WARDE (2000) describes the ties between politics and “Islamic economics” as “guilt by association” and enumerates many cases where “Islamic finance” was used to control and even to “financially execute” rival political factions or religious groups.

4.1. Saudi Arabia

Saudi Arabia is an interesting example: The kingdom did not recognise the concept of “Islamic banking” at first as the logic was that if a bank is recognised as “Islamic” then all others would be by implication “un-Islamic”, and the Saudi official line used to be the same as the Iranian one: “All the banks are, by default, Islamic”.

Saudi banks typically reported interest income as “special commission income”, “service charges”, or “book-keeping fees”, and reportedly, when a client plans to open a deposit account, the bank openly asks if he or she wants a “riba account”\(^{17}\), and as it is seen “morally unacceptable” a decline would be most likely to occur, leaving the profits to the bank (ALQASSEMI, 2007). The country’s estimated 150 billion USD bank deposits generate substantial interest income and little is paid to clients, hence the careful treading of authorities around the issue of “riba”. In a later stage however, the usage of the term “Islamic” in the description of products and services was relaxed in

\(^{17}\) Which means an interest-yielding account
an attempt to offset capital migration to other banks explicitly using the term “Islamic”. The neighbouring United Arab Emirates had five “Islamic banks” with only one fifth of Saudi Arabia’s population.

4.2. Egypt
The Egyptian case is in one way unique on the religious level as it is one of few countries with a majority of Muslims where a top religious establishment has approved, or was pressured to approve, of interest-based lending. The timeline of “Faisal Islamic Bank of Egypt” clearly shows the political and religious association: The bank strove for inclusiveness and political respectability since its inception, and the founder, Prince Mohammad Alfaisal El Saud after whom the bank is named, sought to include among the bank’s shareholders the widest possible array of political, economic, and religious figures, ranging from former Prime Minister Abd Elaziz Hijazi, who later became a leading proselytizer of “Islamic economics”, the prominent businessman Uthman Ahmed Uthman, to the leading Islamist figure Tawfiq Mohammed Ash’shawi. Prince Mohammed Alfaisel reportedly pushed to include the Waqf ministry among the stakeholders.

On the governmental level, Egyptian authorities were not very enthusiastic towards “Islamic banking” because of suspicions about its growing potential to destabilise the state. One of the multiple political clashes occurred with the “Islamic Money Management Companies” (“IMMCs”) which where, unlike “Islamic banks”, “unregulated entities” working outside the scope and control of the official channels. While most “IMMCs” avoided partisan politics, the oldest one, namely “Ash’sharif”18, had substantial ties with the Muslim Brotherhood. The Brotherhood in their turn controlled a bank registered in the Bahamas by the name “Attaqwa”19 which was denied to operate within Egypt as a commercial bank in 1988. Moreover, the government repetitively accused the “IMMCs” of political meddling especially during the 1987 elections: Reportedly, their meteoric growth caused concern, and they had not only the resources to influence the electoral outcome, but

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18 “الشريف”, Arabic for “Piety”
19 “النقوى”, Arabic for “Piety”
the dynamics and the symbolism as well. The slogan of the “Arrayan Group”, the largest of the “IMMCs”, was “the blessings behind the success”\(^\text{20}\), allegedly a subtle aide-mémoire of the Muslim Brotherhood’s slogan (WARDE, 2000). More recently in the Egyptian post-Mubarak political scene, the ties between the “IMMCs”, other “Islamic financial institutions”, the Muslim Brotherhood, and other Islamist organisation were very obviously exhibited.

### 4.3. Sudan

The Sudanese example illustrates the conflation in a slightly clearer way: Prior to the “Islamisation” of the banking sector, the two main dominant religious groups were the Muslim Sufis of the “Ansar” branch, and their “Khatmiya” counterparts who enjoyed business privileges before the introduction of “Islamic economics”. The then-president Nimeri used both his ties to the Saudi financiers and the domestic support of the local Muslim Brotherhood group to “halalise” the economy. The decision substantially benefitted the Muslim Brotherhood, de facto ejecting the “Khatmiya” from the economic scope, and by 1983, the Muslims Brothers were among Nimeiri’s few remaining allies (WARDE, 2000).

Unfortunately, one of the consequences of the “Islamisation of the economy” was the forced “Islamisation of the political and social life”: For an aspiring businessman to qualify for a loan, he had to be a supporter of the Brotherhood with references from an already established businessman with a good record of support for the Muslim Brothers. In his description of the situation, WARDE (2000) states that “this has led to almost comic attempts on the part of many in the urban marketplace to assume the physical as well as religious and political guise of Islamists”.

### 5. “Islamic Economics and Finance” in Tunisia

The history of “Islamic finance” in Tunisia is filled with paradoxes: The concerns of Tunisian authorities over Islamic movements in the country were not the weighing argument when confronted to economic pragmatism and attracting the Gulf’s investments. After an offshore

\(^{20}\) “البركة وراء النجاح”, transliterated “albaraka wara’ annejeh”.

Jihéd MEJRISSI

February 2013
legislation amendment, the Tunisian branch of the Bahrain-based “Al Baraka Banka”, namely “B. E. S. T. Bank” 21, was established under the severe constraint that deposits may not exceed 1% of the total Tunisian Banking System (WILSON, 2011). Despite this, the Bank managed to attract substantial customer deposits and Tunisian Islamists rejoiced until an alleged Islamist coup d’état planned by Ennahdha, previously named the Islamist Orientation Movement 22, was discovered by Ben Ali in 1991, making the Islamist leaders flee the country. Ironically afterwards, the head of the Ennahdha movement, “Rashed Khriji”, who later changed his name to “Rashed Ghannoushi”, publicly congratulated Sakhr Elmatri, Ben Ali’s son-in-law, upon the establishment of the “Zitouna Islamic Bank” of which Elmatri was a notable shareholder. The “Zitouna Islamic Bank” was established as a local retail bank, in contrast to “B. E. S. T. Bank” and “Noor Bank”, which operated as offshore institutions. This establishment, among other, was interpreted by Islamists as an incentive to gradually go back to Tunisia as Elmatri was speculated to become one of the future major political figures of the country, and possibly even the future post-Ben Ali replacement. However, in January 14th, 2011, Ben Ali was overthrown in what was known later as “The Tunisian Revolution”, “The Revolution of January 14th”, or “The Jasmine Revolution”, and Elmatri fled to Qatar leaving the Tunisian authorities to seize most of his assets. The images of “Zitouna Islamic Bank” and “Islamic Banking” in general were tarnished to a certain extent. Nevertheless, the Islamists won the relative majority in the Tunisian constitutional elections of October 2011, which gave a new boost to the sector and to its legal framework.

Comparatively, in the neighbouring Moroccan Kingdom, there are so far no “Islamic Banks” despite efforts by the “Islamic Development Bank” which hosted, in cooperation with the Central Bank of Morocco, a conference on “Islamic finance” in Casablanca in 1990, however no local “Islamic

21 “B. E. S. T.” is an acronym of “Beit Ettamwil Essaoudi Ettounsi”, which is the transliteration of “Banque Éttaémwil Essaoudi Tounsi”, meaning “The Saudi Tunisian Financing House”. The bank was also known as “Bank Ettamwil Essaoudi Ettounsi”, which is the transliteration of “Banque Éttaémwil Essaoudi Tounsi”, and meaning “The Saudi Tunisian Financing Bank”. It later changed its name to “Al Baraka Bank” in the course of its group identity unification strategy.

22 “حركة الإنجاز الإسلامي”
bank” emerged as it had happened at similar launch events elsewhere. Moroccan legislation does not permit direct investment activity undertaken by “Islamic Banks”, and does not particularly facilitate PLS participatory finance. Reportedly, “Bank Al-Maghrib” has an observer status with the “Islamic Financial Services Board”, but has not applied for full membership and rarely sends representatives to “Islamic finance” conferences or seminars.

5.1. Are “Islamic Economics and Finance” Factors of Economic Growth in Tunisia?

In the Tunisian case, ideologically-motivated claims for “Islamic economics and finance” advocate either a radical “conversion of the economy” following the Sudanese, Iranian, and other examples, or a gradual “Islamisation” as a first stage before phasing out conventional finance. In addressing both claims, the widely-circulated and implicitly-apprehended argument that “after doing matters in an Islamic way, a blessing from Allah would in turn generate economic welfare”, will be dismissed for multiple reasons, most importantly the absence of any empirical measures of such alleged correlation.

5.1.1. Fiscally

The fiscal system advocated by Islam is rather discriminatory as it openly segregates a population on the basis of religion: The type and the amount of the applied taxation are subject to whether a citizen is Muslim or not. The “zakat” tax is in fact the third “Pillar of Islam” and is obligatory on Muslims. If a person is not Muslim but still lives in an “Islamic country”, or is not a Muslim but lives in one of the countries subjugated to Muslims, other taxes would apply, namely the taxes of “jizya”, “ushr”, and debatably the “kharaj”. These taxes were higher than the taxes that Muslims paid (PARSONS, 2010).

In a side note, many Muslims allege that these taxes are a contribution to the expenses of the Islamic establishments and the army that is protecting non-Muslims; however it is questionable whether non-Muslims have asked for this protection in the first place as, in most historical cases, Islamic armies colonised non-Arab lands and then enforced this taxation system. And as previously
mentioned in 2.1., these taxes may have acted as a mechanism encouraging conversion in the newly-colonised lands during at least the first two hundred years of Islam (PARSONS, 2010).

In practice, while Islam is Tunisia’s “official religion”, an actual implementation of such system is complicated as, unlike other neighbouring countries, no official data about religious faiths exist: Tunisian governments adopted and are still adopting a pan-Arab pan-Sunni approach, and hence no official statistics about the number of Tunisians adhering to Judaism, Christianity, Atheism, or other beliefs can be found\textsuperscript{23}. Naturally, it is needless to say that such religion-based fiscal segregation of the Tunisian population seems at best naïve and at worst inhumane. It would create more frictions and help re-establish the Islamic dhimmitude caste system that was adopted during the early “Muslim States”; therefore such resort should be rejected.

A possible alternative could be disregarding the obligation of a central authority that collects the “zakat”, and rendering its collection executed through an optional process. While this may still create concern that it would become a de facto social convention due to the socio-cultural context, the economic impacts could be beneficial and the religious alibi could be actually utilised in a more or less useful way to redistribute taxes.

5.1.2. Financially
In the recent years, many Gulf-based investors have financed multiple projects with “Islamic finance” mechanisms. The table below indicates some:

<table>
<thead>
<tr>
<th>Date</th>
<th>Project</th>
<th>Sector</th>
<th>Amount in million USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 2011</td>
<td>Tunisia Financial Harbour</td>
<td>Real estate</td>
<td>3000</td>
</tr>
<tr>
<td>December 2009</td>
<td>Irrigation Development, Tunisia</td>
<td>Infrastructure</td>
<td>12.3</td>
</tr>
<tr>
<td>March 2009</td>
<td>Tunisian Indian Fertilizers</td>
<td>Manufacturing</td>
<td>150</td>
</tr>
</tbody>
</table>

Source: WILSON (2011)

\textsuperscript{23} In Tunisian official documents there is no particular mention of religion, aside perhaps from the case where a foreign man intending to marry a Tunisian woman according to the Tunisian legislation, finds himself obliged to convert to Islam and hence obtain a proof from the Ministry of Religious Affairs.
Tunisian authorities could, aside from making use of foreign investors’ affinity with such types of investments, issue government bonds or “obligations”24 in the form of “sukuk” to tackle the growing government debt. The current mainly-Islamist government of Tunisia has been planning to issue “sukuk” with an individual value of around 500 EUR amidst contradictory market reception. Moreover, the current government’s close political ties with the Gulf should be used in order to internationalise the Tunisia-based “sukuk”, which would allow for a cross-border trust of the bonds and a foreseeable growth of the sector.

In the banking sector, the example of “Al Baraka Bank”, though holding assets less than 10% of the conventional banking leader “Banque Internationale Arabe de Tunisie” (WILSON, 2011), and the examples of other “Islamic banks” establish a respectable case. Theoretically, and regardless of the conventional-versus-Islamic frictions, there would be no devastating repercussions for “Islamic banking” side by side with conventional banking. The ideological “halal” argument may give a relatively weighing advantage in clutching a market share, yet this is the nature of the market and competition would most probably be beneficial for the consumer and for the economy in general, granted that this form of banking does not contribute to substantial capital outflows. However, the problem is that currently, the Tunisian Banking System is considerably fragile. Around 30 institutions constitute the system yet their very limited size hinders any attempts to benefit from scale economies. In fact, calls for the consolidation of the financial public sector have been echoed multiple times: The International Monetary Fund (IMF) and the World Bank called for a recapitalisation of Tunisian banks as their assets are considered to be highly over evaluated, exposing the whole financial sector to jeopardy (BEN HAMMOUDA, 2012). Thus, the establishment of any further financial institutions, be it Islamic or not, before re-evaluating the sector’s priorities would not be recommended at all.

5.1.3. Other

24 French term for bonds. French is used as a lingua franca in Tunisia.
Other issues arise when it comes to sharia-prohibited businesses such as alcohol, which is a relatively lucrative business in the country. Statistics suggest the average of 10 litres of beer per person per year (KÉFI, 2008), and 1.29 litre of pure alcohol (World Health Organization, 2011). In 2009, the major producer of beverages recorded revenues of about 510 million Tunisian Dinars (TND) (M. T. B. F. & Cabinet Ali LAHMAR, 2010), approximately 268 million EUR. One third of which was the share of the revenues of beer, which makes up around 0.3% of the 2009 56.8-billion-TND Tunisian GDP, approximately 30 billion EUR, without including other alcohol-related products and the revenues of other alcohol-related businesses.

Additionally, the issue has been extensively discussed in the period preceding the Tunisian elections of 2011 and the Ennahdha Islamist party, despite constantly advocating “Islamic economics”, has failed to provide a solution that takes into account the economic framework of the industry and the social context of alcoholic beverages. Following the Islamists’ electoral win, no particular steps regarding this matter were publicly adopted, however many small businesses selling or serving alcoholic beverages reported multiple threats, issued by Islamist groups, that relate to the nature of their activity, and multiple cases have been publicly confirmed and documented.

Other prospects for “Islamic Economics and Finance” remain economically lucrative and academically interesting. On the academic level for example, the “Académie des Banques et des Finances”, in partnership with the “Conseil Islamique des Banques et des Établissements Financiers”, has sought to launch a professional Masters in “Islamic Finance” beginning in April 2012.

5.2. Are “Islamic Economics and Finance” Factors of Integration with Neighbouring Regions?

25 This would put Tunisia in the first position among consumers of alcoholic beverages in countries with a Muslim majority, excluding Lebanon where such classification is subject to debate depending on which factions are included.

26 By late December 2009, one EUR equalled 1.9 TND.

27 One solution proposed by Ennahdha was to impose a high taxation on alcoholic beverages to limit their consumption; however this would mean that these taxes are also “haram” as they derive from a “haram” product.
Political and economic integration has been the region’s “reverie” since the establishment of the League of Arab States, and the “Arab Dinar” has been proposed ever since the creation of the “Arab Monetary Fund”. The politically-motivated ambitious Arab dreams did not come to existence for various reasons, and when pan-Arabism failed Islamism replaced it as the region’s new favourite “ticket to salvation”. This integration has been repetitively promoted by Islamists as an objective that “Islamic economics” could achieve. And while it seems rather awkward to picture a direct causality from a set of financial and fiscal measures to monetary and economic integration, the veracity of these claims may still be subject to close examination.

Most economists agree that the drivers of an optimal currency area are more or less the following: factor mobility, diversified economies, similarity of production structure, similarity of economic policies, price and wage flexibility, and political factors (MEADE, 2009). And when examining the theoretical and practical aspects and the current economic and political state, it is hard to determine how “Islamic economics” would contribute to any of these factors, aside perhaps from a common ideologically-motivated political will. In particular, when it comes to factor and labour mobility, empirical evidence suggests rather the opposite of the alleged correlation: Gulf countries where “Islamic economics” are constantly promoted put much restriction on labour movements even from other Muslim-majority countries outside the GCC, including other countries where “Islamic economics” are promoted. As a matter of fact there is no unified fiscal or monetary policy within the GCC itself, and even the project of monetary integration does not take into account “Islamic economics” in any aspect. Moreover, the extreme variation of the business cycles of the region makes the integration of “Islamic economies” even less likely.

A report published by the “African Development Bank” suggested that “Islamic financial tools” can be helpful to promote intra-African banking sector and cooperation between the countries due to the common state of “unexplored market opportunities”, in contrast to more developed markets in Southeast Asia and the Gulf (ABDEL KARIM, 2012), which may apply to the Tunisian case. However
the extent of these “opportunities” remains very doubtful and extremely uncertain when it comes to cross-border scenarios. Currently, It seems rather more pragmatic for the Tunisian government to focus more on present intra-Mediterranean integration and North-South trade than integration for mere ideological reasons. It is nevertheless worth noting that, a supra-national risk-sharing system, as advocated by some “Islamic economics’” scholars, could decrease the effect of asymmetric shocks, in theory.

6. Conclusion

Although any assessment of “Islamic economics and finance” may seem as a criticism directed to Allah itself, as the issue is intrinsically liked to the beliefs of Muslims and the commandments of their Deity, objective evaluation is not a choice for economists, but rather an ethical obligation.

On paper, “Islamic economics” may seem as altruistic and benevolent as Communism or Anarcho-syndicalism would; however when put into practice it seems rather full of contradictions and as hollow as the loudness of Islamists and other Islamist-enthusiasts constantly praising this “neither capitalist nor socialist model”. The desperate identity-driven attempt to acclimate an obsolete theological and an-ever changing practical has given “Islamic economics” a rather justified reputation of “just a hotchpotch of populist ideas”. Its inefficient redistribution policies and impractical mechanisms seem like a façade of an unsuccessfully attempted theocratic control of the economy under “Divine” excuses, in the same vein of the use of religion as a tool for political domination. Furthermore, no ideological gain can sustain economic crises without the backup of an extraordinary oil or gas reserve, which the Tunisian state lacks: Allah is less likely to help in case of crisis in a country with no oil rents.

On the other hand, “Islamic finance”, while seemingly succeeding in becoming an industry with a substantial amount of assets that is more likely to outlast the Gulf’s oil, has failed in multiple aspects, most importantly the application of the theoretical axiom of PLS upon which it has marketed itself as an “ethical finance”. Proxying the same economic and financial processes to a
“halal” equivalent may have satisfied the ideological need but it has occurred at the expense of productivity and contributed in reflecting a dishonest picture. The fact that on average, only around 5% of the operations of “Islamic institutions” are actually based on PLS sharing confirms that even in Islam, there’s no free lunch. Therefore, more tangible performance is required, and more innovation in the harmonisation of regulations, liquidity issues, and risk management need to be undertaken, otherwise “Islamic economics and finance” will soon find its place in history books next to Communism.

On another level, the country of Tunisia should focus more on its present partnerships instead of being involved in an ideologically-driven economic integration with “Islamic partners” who have constantly failed the state of Tunisia in many occasions, a recent one being refusing to deliver Tunisia’s overthrown president Ben Ali who fled to Saudi Arabia and whose family members fled to Qatar and other Gulf countries. Employment, infrastructure and the diversification of the economy should have more priority than “Islamic taxation”, and the restructuring of the financial sector, especially the public half, needs to be urgently carried out before a green light to any other financial institutions. This does not mean that the country should not exploit any present “Islamic finance” opportunities, granted a more pragmatic and solution-oriented approach.

Finally, while there is nothing wrong with wanting to adopt and abide by any personal way of life, be it Islamic or Pastafarian, it serves little purpose to market “Islamic economics and finance” as a “salvation” from conventional systems, while it is filled with lacunas and not fully applied in any single State. The current inequality that strikes many nations should not make enthusiasts turn to the least useful solutions which may, for one reason or another, seem efficient and beneficial yet carry a heavy “ideological baggage”. A proper economic solution for the problems of Humans is more likely to emanate from Humans.

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2 Transliterations in this document follow the STUNdard method.