

Policy Reforms and the Future of Islamic Finance in Post-Revolution Tunisia

Dr. Mohamed Ben Youssef

CIBAFI Former Secretary General – Lecturer at AP Business School

Member of the Editorial Board of the Global Islamic Economics Magazine

Since the 2011 revolution, Tunisia has been undergoing a profound socio-political and economic transformation. The uprising that ushered in democracy also revealed deep structural weaknesses in the country's economy — ranging from unemployment and regional inequality to declining investor confidence. Amid these challenges, Islamic finance has emerged as both a moral and developmental alternative capable of restoring financial trust and promoting inclusive growth.

Although Tunisia's financial system has long been dominated by conventional banks, the post-revolution era created a unique opportunity to reconsider the role of finance in achieving social justice — one of the core demands of the revolution itself. The introduction of Islamic banking, anchored in Shari'a principles such as the prohibition of interest (riba), risk-sharing, and ethical investment, reflects not only a religious revival but also a policy-driven search for sustainable and equitable economic models.

In this context, the government and central bank have initiated a series of policy reforms aimed at integrating Islamic finance into the broader financial system, diversifying funding sources, and promoting investment that aligns with Tunisia's development goals. Yet, the path has been complex — marked by regulatory ambiguities, limited market awareness, and a gradual but steady expansion of Islamic financial institutions.

The Policy Environment: From Skepticism to Integration

Prior to 2011, Islamic finance in Tunisia existed on the margins. The financial system operated largely under secular regulations inherited from the French model, with little space for Shari'a-compliant finance. The revolution changed that dynamic. Policymakers began to view Islamic finance not merely as a

religious expression but as a tool for economic revitalization, capable of attracting investment from Gulf countries and promoting inclusive growth through social finance instruments such as *zakat*, *waqf*, and Islamic microfinance.

The first major reform came with the 2013 Banking Law, which officially recognized Islamic banking operations within Tunisia's financial framework. This law permitted banks to offer products such as *Murabaha* (cost-plus financing), *Ijara* (leasing), and *Mudaraba* (profit-sharing), under supervision of the Central Bank of Tunisia (CBT). However, the lack of a dedicated Shari'a governance framework remained a major limitation.

Unlike Malaysia or Bahrain, Tunisia had no centralized Shari'a board, leaving each institution to form its own internal Shari'a committee, leading sometimes to inconsistencies in interpretation and application between different institutions.

Further regulatory developments followed in 2016 and 2023, as Tunisia sought to modernize its financial system and attract foreign investors. The Central Bank's circulars on Islamic banking operations clarified the accounting, risk management, and disclosure requirements for Shari'a-compliant products. These steps marked a transition from mere tolerance to genuine integration, signaling the state's commitment to nurturing Islamic finance as part of its economic reform agenda.

Still, implementation challenges persist. Many policymakers remain cautious, wary that Islamic finance could be seen as politically or ideologically charged. Additionally, the limited public awareness and lack of specialized human capital in Shari'a-compliant finance have slowed growth. Despite these hurdles, Islamic finance legitimacy and appeal have strengthened steadily, particularly as citizens increasingly seek ethical and transparent financial services that align with their values.

Current Landscape and Emerging Opportunities

Today, Tunisia hosts several Islamic financial institutions, including **Zitouna Bank**, **Wifak Bank**, **Al Barak Bank**, and Islamic windows of conventional banks such as *Banque de l'Habitat* and *Attijari Bank*. Collectively, Islamic banking accounts for around **7–10% of total banking assets**, a modest but growing share of the national financial market.

These institutions have demonstrated resilience amid economic uncertainty, partly because of their asset-backed and risk-sharing nature. For instance,

during periods of inflation and currency depreciation, Islamic banks' reliance on tangible assets and real-sector financing helped reduce exposure to speculative risks. Moreover, their social finance tools, notably *zakat*, *waqf*, and *qard hasan* (benevolent loans) offer innovative mechanisms for poverty alleviation and local development.

The rise of **digital Islamic finance** is also reshaping the sector's trajectory. Tunisia's young, tech-savvy population presents fertile ground for fintech-driven solutions. Startups and banks are exploring blockchain-based *sukuk* issuance, mobile *Murabaha* applications, and digital *waqf* platforms that enhance transparency and accessibility. The integration of **Islamic fintech** aligns well with the government's digital transformation strategy, promising to bridge the gap between ethical finance and technological innovation.

Furthermore, Tunisia's participation in international Islamic financial institutions, such as the Islamic Development Bank (IsDB), provides access to technical expertise and funding for infrastructure and SME projects. With growing global demand for **green and sustainable finance**, Tunisia is also well-positioned to issue **green sukuk** that fund renewable energy, water management, and sustainable agriculture, all priority areas in its national development plan.

Policy Challenges and the Road Ahead

Despite visible progress, the Islamic banking sector in Tunisia still faces substantial policy and operational challenges.

First, regulatory harmonization remains incomplete. The absence of a national Shari'a Board means that banks interpret compliance individually, which may lead to some inconsistencies in product approval and customer confidence. A unified Shari'a authority under the Central Bank could ensure standardization, reduce uncertainty, and strengthen the sector's credibility.

Second, **tax and accounting frameworks** are not yet fully adapted to Islamic financial instruments. For example, *Murabaha* transactions may be subject to double taxation since the asset changes ownership twice, first to the bank, then to the customer. Aligning tax rules with Shari'a contracts would make Islamic banking more competitive with conventional products.

Third, **limited human capital** poses another bottleneck. Tunisia needs trained professionals in Islamic finance law, Shari'a auditing, and product development. Partnerships between universities, financial institutions, and

international organizations like the IsDB, AAOIFI, IFSB, and CIBAFI could play a vital role in building capacity.

Finally, **public perception and awareness** remain evolving. Some view Islamic finance primarily as a religious service rather than a viable financial alternative. Public education campaigns and transparent communication about ethical finance, sustainability, and risk-sharing principles could help overcome skepticism and expand customer awareness and adoption.

Moving forward, Tunisia's success in consolidating its Islamic financial sector will depend on **strategic regulatory reforms, capacity building, and international collaboration**. If properly implemented, these measures could transform Tunisia into a regional hub for ethical and sustainable finance linking North Africa to the wider Islamic financial ecosystem in the Gulf and Southeast Asia.

Conclusion

Islamic finance in post-revolution Tunisia embodies more than just a financial reform; it represents a societal aspiration toward fairness, ethics, and shared prosperity. The revolution's spirit of justice and inclusion finds a natural extension in the principles of Shari'a-compliant finance principles that reject exploitation, emphasize transparency, and encourage real economic activity.

While challenges remain from regulatory gaps to limited financial literacy, Tunisia has laid the foundations for an inclusive, ethical financial system. The coming decade will test whether policymakers can turn this vision into a sustainable reality. If reforms continue to advance and innovation is embraced, Tunisia could emerge as a **model for Islamic finance in transitional economies**, demonstrating that economic modernization and moral integrity need not be opposing goals, but rather two sides of the same coin.