



Analysis of Islamic finance: fundamental principles, products and contribution to development in Mali

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Abstract: Today, Islamic finance is growing and is one of the most dynamic segments of the global financial industry. Our study aims to contribute to the study of Islamic finance in Mali. To do so, we will explore the existing literature on Islamic finance. The results of the study will present the basic principles and products of Islamic finance, on the one hand, and its contribution to the Malian economy, on the other.

Keywords: Islamic finance, development, Mali.

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1. Introduction

By consensus, modern Islamic finance dates back to the 1970s, following the creation of the Organisation of the Islamic Conference (OIC), which brings together a large number of Muslim countries.

Today, Islamic finance is expanding and is one of the most dynamic segments of the global financial industry. It is currently still very concentrated in the Persian Gulf region and South Asia, but it is beginning to expand in Europe, the United States and Africa.

At the end of 2012, around 38 Islamic financial institutions - including commercial banks, investment banks and takaful (insurance) operators - were active in Africa. Of these, 21 were working in North Africa, Mauritania and Sudan, and 17 in sub-Saharan Africa.

In the WAEMU area, the regulatory text on Islamic finance came into force in the first quarter of 2017. In Mali, on the report of the Minister of the Economy and Finance, the Council of Ministers of 31 May 2018 adopted a bill amending Act No. 10-013 of 20 May 2010 regulating decentralised financial systems.

According to IMF estimates, there are currently more than 300 Islamic institutions operating in over 75 countries. According to the same statistics, this sector has grown at an average annual rate of around 15% over the last ten years. This is because the spiritual and religious revival has created a growing appetite for Sharia-compliant products. The second reason is the considerable savings from the Gulf States, mainly due to increased oil revenues. A third

reason could be the increase in banking competition in the Middle East. This competition has intensified and become more visible following the integration of these countries into the WTO (World Trade Organisation).

As a result, in 2018 the IMF Executive Board granted a proposal for the use of the Fundamental Principles for the Regulation of Islamic Finance (FIPCR) proposed by the Islamic Financial Stability Board (IFSB) and developed with the participation of the Secretariat of the Basel Committee on Banking Supervision (BCBS). These principles were designed to serve as a reference and to be applied by the regulatory and supervisory bodies of the Islamic banking sector. Indeed, Islamic finance appears to play a role in economic development through the mobilisation of savings.

Khan and Mirakhor (1994) complement this view by showing that Islamic monetary policy takes place within a framework where all the conventional tools available in a modern economy are at the disposal of the monetary authorities, with the exception of the discount rate and other tools which involve the use of interest. Moreover, the idea of risk and return sharing, as well as materiality or a direct link between finance and the real economy, is central to Islamic finance.

According to Jaseem Ahmed (2014), "the values and ethics of Islamic finance constitute its social and moral capital. They contribute to the stability of Islamic finance as well as its wider appeal."

) and its wider appeal. However, they need to be accompanied by other measures to promote stability and resilience, which also requires a sound financial infrastructure, in the form of legal and

regulatory frameworks, and strong transparency and disclosure regimes that ensure funding serves the real sector."

Thus, Islamic finance can be defined as the set of financial services and financing operations that are primarily implemented to comply with Shariah principles. In the same vein, Islamic finance is a financial system that is inspired by the primary sources of Islam, such as the Quran and the Sunnah of the Prophet (SAW) (Alzubaidi and Abdullah, 2017). In the same sense, it follows a logic of ethics, responsibility and morality by improving the quality of life, ensuring an equal distribution of resources and promoting social justice for all (Rabbani et al., 2021).

This leads us to ask the following question: What are the basic principles and instruments of Islamic finance and its contribution to the Malian economy?

Our study aims to contribute to the study of Islamic finance in Mali. To do this, we will explore existing documents on the subject.

To answer these questions, we will first present a review of the literature on Islamic finance, then the methodology, followed by the results and finally the discussions.

2. Literature review

Several publications are already available on the concepts of Islamic finance (Anwar, 1995; Haron, 1995; El-Gamal, 2000; Warde, 2000; Lewis and Algaoud, 2001; Iqbal and Llewellyn, 2002; Abdul-Gafoor, 2003; Obaidullah, 2005). Thus, they range from the most restricted (non-interest-bearing bank financing transactions) to the most generalised (financial transactions carried out by Muslims).

Empirically, there are several studies on Islamic finance, some of which are presented below:

Gheeraert (2014) examines, in his study, the relationship between the development of Islamic banks and that of the overall banking sector, based on a sample comprising all retail Islamic banks worldwide for the period 2000-2005. The results show that an expansion of Islamic banks favours the overall development of the banking sector without harming conventional banks, acting rather as a complement in Muslim countries where the two systems coexist.

Khan and Mirakhor (1994) conclude in their study that Islamic finance plays a remarkable role in economic development through the mobilisation of savings.

(Iqbal, 2005; Aboualfadel, 2009; Bader et al., 2008; Kabir Hassan, 1999; Samad & Hassan, 2000), among others, explore various aspects of Islamic banks, including their performance, effectiveness, efficiency and economic impact, most often focusing on comparisons with conventional banking systems.

Anwar et al (2020), in the context of Indonesia, explored the impact of Islamic finance on economic growth from Q1 2009 to Q4 2019. The results of this study admit a significant link between Islamic finance and Indonesian economic growth.

3. Materials and Methods

The methodology consisted first of collecting data through documentary research, i.e. general and specialised books, articles,

national and international reports and seminars on Islamic finance. Then, it consisted of interviews with some officials of Islamic financial institutions, those of the Ministry of Economy and Finance and usages.

4. Results

4.1 Foundations of Islamic finance

From the point of view of Islamic finance, in order to be socially just and ethical, all transactions must be free of *riba*, *maysir* and *gharar*, based on the sharing of risks and responsibilities, and based on the real economy and not on fiction (Atelier, 2021).

Thus, the fundamental principles can be summarised in five principles:

- *Riba* (the prohibition on interest/usury) ;
- *gharar* and *maysir* (prohibition of uncertainty and speculation) ;
- illicit activities;
- investment risk sharing (PPP/3P);
- the principle of backing by tangible assets (tangibility of assets);

4.2. The main instruments of Islamic finance

A distinction is made between financing instruments and participatory instruments. Two concepts relating to non-bank Islamic financial institutions will also be presented.

4.2.1 Financing instruments

There are a number of financing instruments. These include

- *Murabaha*; *Murabaha*.
- This involves the creditor (the bank) purchasing a given asset at a price known to both parties on behalf of its customer. The creditor then resells the asset to the customer in return for payments, which may or may not be staggered over a given period, at a price agreed in advance by the two parties and higher than the purchase price.

4.2.1.1. *Ijara*

In an *Ijara* transaction, the creditor (the bank) buys goods which it then leases to a customer who can buy them back at the end of the contract. *Ijara* is very similar in form and spirit to a leasing contract.

4.2.1.2. *Salam*

The *Salam* sale is a forward sale, i.e. a transaction where payment is made in cash but delivery takes place in the future. In principle, Islamic finance prohibits the sale of a non-existent asset because it involves chance (*gharar*). However, exceptions have been made to facilitate certain transactions, particularly in agriculture. This contract is also a solution for financing production inputs.

4.2.1.3. *Istisna'a*

This financial contract enables a buyer to purchase goods and have them delivered on time. Unlike the *Salam*, in this type of contract the price, agreed in advance, is paid gradually throughout the production of the goods.

4.2.2. Equity instruments

These include

4.2.2.1. Moudharaba

This operation brings together an investor (Rab al Mel) who provides the capital (financial or other) and an entrepreneur (Moudharib) who provides his expertise. The profits generated are shared between the two parties according to a pre-agreed breakdown, after the investor has recovered his capital and the entrepreneur's management costs have been paid. In the event of a loss, the investor bears the entire cost; the entrepreneur loses only his remuneration (this is where the Musharaka differs from the limited partnership).

The Musharaka is particularly well suited to financing small, innovative businesses (especially in the intangible sector) and is most similar to the concept of venture capital.

4.2.2.2. Musharakah

Musharakah is the translation of "association". In this operation, two partners invest together in a project and share the profits according to the capital invested. In the event of a loss, this is borne by both parties in proportion to the capital invested.

The nature of this operation is similar to a joint venture. There is no single form of Al Musharakah, and Islamic law does not set out in detail all the terms and conditions of such an arrangement.

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The nature of this operation is similar to a joint venture. There is no single form of Al Musharakah; Islamic law does not set out in detail all the terms and conditions of this operation, but only specifies the main principles. There are therefore various forms of Al Musharakah and new variations could be devised.

One interesting form is the degressive Al Musharakah: a transaction in which the share of one of the partners in the association is gradually bought out by the other partners.

Although specialists agree that this instrument is probably the most faithful to the fundamental precepts of Islam, in reality this financing technique is used very little. It is mainly used for small-scale investment projects.

4.2.3 Instruments used by non-banking institutions

These include

4.2.3.1 Sukuk

This is a financial product backed by a tangible asset with a fixed maturity that confers a debt right on its owner.

The sukuk is therefore a financial product similar to bonds, with a fixed maturity and backed by an asset that provides a return on the investment. They are structured in such a way that their holders run a "credit" risk and receive a share of the profit from the underlying asset (which must be legal) rather than a fixed interest rate.

There are two types of sukuks: sovereign (issued by a government) and corporate (issued by a company or bank). The underlying products of sukuks may be represented by contracts such as Ijara, Musharakah or Mudharaba.

Because sukuks are asset-backed by nature, they are able to finance infrastructure development, and many emerging countries are considering financing their projects through sukuks.

4.2.3.2 Takaful

Takaful derives from the Arabic verb kafalah (to guarantee). It is an insurance concept based on cooperation, protection and mutual aid between participants.

In Takaful, a distinction is made between shareholders' and members' funds. Shareholders must neither profit nor lose from insurance operations.

4.3. Contributions of Islamic finance to the Malian economy

Firstly, the sukuk mechanism is used to mobilise resources for the State, private operators and banks, and thus finance large-scale projects:

For example, Mali launched an Islamic bond issue, sukuk, on the WAEMU capital market in 2018. The operation involved raising CFAF 150 billion from the general public and institutional investors. With this launch on the sukuk market, Mali became the fourth country in the West African Economic and Monetary Union (WAEMU) to issue Islamic bonds, after Togo, Côte d'Ivoire and Senegal.

The insurance market has also been boosted by the Takaful solution.

In 2011, the Republic of Mali signed an Istisnaa financing agreement worth around CFAF 7,104 million with the Saudi Fund for Development. This fund is intended to partially finance the Djenne weir construction project.

In 2014, the Republic of Mali signed a Murabaha Financing Agreement

of approximately 11,790 million CFA francs with the Islamic Trade Finance Corporation. This fund is earmarked for the project to build resilience against food insecurity.

In 2023, Mali signed a USD 500 million framework agreement for a period of 5 years, i.e. around CFAF 300 billion, with the Islamic Development Bank (IDB) through its two subsidiaries: the International Islamic Trade Finance Corporation (ITFC) and the Islamic Corporation for the Development of the Private Sector (ICD).

This agreement aims to support the purchase of petroleum products and foodstuffs, with the possibility of extending to other areas including agriculture, health and strengthening the financing capacity of the private sector through local banks.

5. Discussion

It emerges from our study that Islamic finance operates on the basis of principles: Riba (the prohibition of interest/usury); Gharar and Maysir (the prohibition of uncertainty and speculation); Illicit activities; Investment risk sharing (Profit and Loss Sharing or PPP/3P); the principle of backing by tangible assets (tangibility of the asset); Our results corroborate those of (Metwally 2006; Iqbal and Siddiqi 2004; Lewis and Moore 1997; Iqbal 1997; Haron 1995; Kahf and Khan 1993) who studied the principles of Islamic finance and found the following principles to be true.

Islamic finance has financing instruments, participatory instruments. These results are in line with those of W, Mzid (2011).

Contribution to development in Mali

Among other alternatives, Islamic finance provides solutions to development and infrastructure problems, and Islamic financial institutions are a lever for financing growth. The study by W, Mzid (2011) also highlights that Islamic finance provides solutions to certain problems highlighted in Tunisia in its post-revolutionary context. This is true not only for Tunisia, but also for other countries suffering from the same problems: unemployment, deteriorating purchasing power, problems related to development and infrastructure, and so on.

The insurance market in Mali has also been boosted by the Takaful solution. The commercial insurance industry is one of the most widespread financial industries (Billah 2001b). However, most Muslim jurists maintain that commercial insurance implies Gharar and is therefore prohibited.

Conclusion

Islamic finance has basic principles and instruments, and provides, among other alternatives, solutions to problems linked to development and infrastructure in Mali.

Islamic financial institutions are a lever for financing growth. This is the case with sukuk, Murabaha and istinaa.

Islamic financial instruments could provide a favourable framework for mobilising resources, both internal and external.

In addition, other instruments of redistribution, such as Waqf (a donation made in perpetuity to a public, pious or charitable organisation), and Zakat (almsgiving) Zakat and Waqf, which are part of the Islamic economic system, could contribute to both wealth creation and economic growth, and provide a palliative for financing the budget deficit, through the partial assumption of responsibility for financing development by supporting the State's efforts to care for deprived families, fight poverty, improve living conditions in the most disadvantaged regions, and even become involved in financing public utility assets such as schools, universities and hospitals.

To this end, a regulatory framework governing the collection of these Zakat and Waqf resources needs to be introduced, and above all rules of control and good governance need to be established.

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