



A SHARĪ'AH AND LEGAL STUDY OF THE
FEASIBILITY OF INTRODUCING ISLAMIC MONEY
MARKET IN MAURITANIA

BY

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A research paper submitted in fulfilment of the requirement
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ABSTRACT

In recent decades, Islamic finance has set a firm foundation and exhibited remarkable growth in the financial industry around the world. However, there is need for liquidity means to maintain and strength the growth of Islamic finance. Money market plays a major role in development of Islamic financial industry through facilitating the liquidity management and increase efficiency of Islamic financial institutions. In Mauritania, Islamic finance continues its progress; several Islamic financial institutions are operating currently in Mauritania. Therefore, there is a need to introduce an Islamic money market (IMM) to enhance the growth of Mauritanian Islamic financial system by providing the liquidity management that is crucial for the smooth function of Islamic financial market. The principal objective of this research is to assess the possibility of introducing Islamic money market in Mauritania from the legal and *Shari'ah* perspectives. The research is an exploratory qualitative study. Both secondary and primary data are used in this research. Primary data conducted through interview method, a number of *Shari'ah* scholars interviewed. On the other hand, secondary data is obtained through the Mauritanian banking regulations, legal library books, Mauritanian official legal journal, and websites. The research findings show that, there is a need for amending the existing law or introducing new law which will allow introducing IMM in Mauritania. According to Mauritania Scholars, Malaysia Islamic interbank money market products are divided into three categories: *Shari'ah* compliant products, non *Shari'ah* compliant products and products need modification to be a *Shari'ah* compliant.

خلاصة البحث

في العقود التالية عرفة المالية الإسلامية تطورا ملحوظا عبر العالم و لكن للمحافظة علي هذا التطور ودفعه للأمام لابد من توفر آليات مالية تساعد المؤسسات المالية علي إدارة سيولتها وتعزيز فعالية أداؤها. من هنا تأتي الحاجة ماسة إلي سوق المالي الإسلامي. إن موريتانيا كغيرها من الدول التي تعرف تطورا للمالية الإسلامية، في حاجة إلي استحداث سوق المالي الإسلامي من أجل تدعيم واستمرارية مؤسساتها المالية الإسلامية. إن الهدف الأساسي لهذا البحث يتمثل في معرفة ما مدي إمكانية قابلية إنشاء سوق المالي الإسلامي في موريتانيا من الناحيتين القانونية والشرعية. يعتمد هذا البحث المنهج الكيفي وذلك من خلال جمع معطيات من مصادر أولية و ثانوية. لقد تم جمع المصادر الأولية من خلال المقابلات التي اجريت مع علماء شرعيين بينما جمعت المصادر الثانوية من النظم القانونية البنكية الموريتانية و من المراجع القانونية المعتمدة و من الجريدة الرسمية للقانون الموريتاني و من المواقع الإلكترونية. لقد بينت مخرجات هذا البحث أن هناك حاجة إلي إدخال تعديلات قانونية علي القوانين الموجودة من أجل السماح بإنشاء سوق المالي الإسلامي في موريتانيا , أما من الناحية الشرعية ، فيبين البحث أن الأدوات المالية الإسلامية المعمول بها في سوق المالي الإسلامي بماليزيا تنقسم إلي ثلاثة أقسام حسب نظرة الشرعيين في موريتانيا. فهناك أدوات اعتبروها شرعية وهناك أخرى رأوا أنها غير شرعية بينما هناك قسم ثالث اعتبروه شرعيا بشرط إدخال بعض التعديلات عليه.

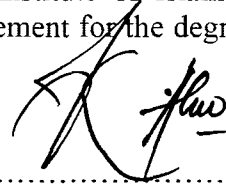
APPROVAL PAGE

I certify that I have supervised and read this study and in my opinion, it confirms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a research paper for the degree of Master of Sciences in Islamic Banking and Finance.



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DECLARATION

I hereby declare that this research is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Elmamy Ahmedsalem

Signature.....

Date...3/7/2015

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I hereby dedicate this Research Paper to my beloved Parents, Ahmedsalem and Fatimatou and to my beloved brothers and sisters

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LIST OF ABBREVIATIONS

BNM	Bank Negara Malaysia
BCM	Bank Central Mauritania
IFIs	Islamic Financial Institutions
MM	Money Market
IMM	Interbank Money Market
IMM	Islamic money market
IIMM	Islamic Inter Bank Money Market
MII	<i>Mudarabah</i> Interbank Investment
WA	<i>Wadiah</i> Acceptance
GII	Government Investment Issue
BNMN	Bank Negara Monetary Notes-I
SBBA	Sell and Buy Back Agreement
CMB	<i>Cagamas Mudarabah</i> Bond
WI	When Issue
IAB	Islamic Accepted Bills
INI	Islamic Negotiable Instruments
IPDS	Islamic Private Debt Securities
RA	<i>Ar-Rahnu</i> Agreement
SBNMI	<i>Sukuk</i> Bank Negara Malaysia <i>Ijarah</i>

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Islamic finance has been growing continuously through the last four decades. At present, global Islamic financial industry assets are expected to surpass USD 2 trillion and the continuous compounding growth rate of Islamic assets has reached 17.3% annually (International Islamic Financial Center 2014). Islamic banking assets held by commercial banks are set to cross US\$1.6 trillion in 2014, up from the USD1.3 trillion of assets held in 2011. According to Ernst & Young's World Islamic Banking Competitiveness Report 2013, The Islamic finance sector continues its growth at a rapid rate, with little sign of deceleration. Between 2006 and 2012 total Islamic financial institutions assets increased from USD386 billion to USD1,166 billion, a compound annual growth rate reach 19% (Islamic Financial Intelligence Summit 2013). However, development of deep and vibrant Islamic money market is crucial for the development for Islamic financial system which will maintain and strengthen the growth of Islamic finance. Money market can play an important role in development of Islamic financial industry.

The start of Islamic finance in Mauritania goes back to eighteen from the last century, when the Al-Barakah Bank was given a license by the Central Bank of Mauritania to operate as an Islamic bank. The capital of Al-Barakah Bank reached MRO500 million, participants of Al-Barakah Bank are, foreigners, Mauritians and the Mauritanian government (Limam 2014). Later on, in 11/ 20/1999, the Mauritanian Islamic Insurance had been established to offer Islamic insurance services

based on *Shari'ah*. Islamic finance continues its progress, several Islamic banks are licensed by Central Bank of Mauritania, mainly: Mauritanian Islamic Bank, Islamic Bank of Mauritania, Mouamalat Assahiha Bank, Bank Populaire de Mauritanie, and Bank Al Wafa Mauritanie Islamic. These banks are operating according to *Shari'ah* Principles.

1.1.1 Importance of Money Market in Financial System

The "money market" term, refers to borrowing and lending money for a short term period, one year or less. Islamic money market is a short term funding; it is structured to conform to *Shari'ah* principals (Hakim 2007). It is an essential and integral component of Islamic financial system. IMM can be described as the financial market for short term funding. Banks, and other Islamic financial institutions, such as Takaful companies, business corporations, government treasury, and the Central Banks all heavily rely on money market for their liquidity management. It is used for managing liquidity. IFIs use money market as avenue to source their daily funding or to invest their surplus for short term (Maxwell 1994). This tool enable IFs to maintain optimal liquidity, thereby allowing them to meet the demand of their customer at any time and to place their surplus for short terms with margin profit. It gives a room for flexible liquidity management to IFs to control up down liquidity situation that may arise due to different timing of cash inflows and outflows. Moreover, Islamic money market use by corporations to manage their working capital fluctuation, through obtaining either short term funding in case they need funds or placing their surplus in case they have extra funds. In addition to that, Islamic money market could be used by the Central Bank to conduct its monetary policies. The Central Bank could implement the open market operations by purchasing and selling eligible Islamic securities and providing

short term financing to banks that are in deficit situation. By doing so, the Central Bank is able to manage liquidity and influence benchmarked rates in money market which will thereby, influence liquidity and the rates of return in *Sukuk* market.

1.2 PROBLEM STATEMENT

In Mauritania, Islamic finance continues its progress, several Islamic banks are now operating in Mauritania, as Islamic Banks licensed by the Central Bank. There are Mauritanian Islamic Bank, Islamic Bank of Mauritania, Mouamalat Assahiha Bank, Bank Popular de Mauritania, and Bank Al Wafa Mauritanie Islamic. These banks are operating according to *Shari'ah* Principles. The performance of the banking industry in Mauritania is promising as shown by a certain Islamic banking performance indicators such as total assets, total deposits and, financing (Bank Scope 2014) Islamic financial industry needs IMM to overcome the following challenges which are:

- As the Islamic financial industry is growing rapidly, it has to be provided with an access to Islamic money market instruments to enable the Islamic financial institutions to operate efficiently.
- The future development of Islamic banking industry and Takaful companies will lead to an urgent need of Islamic money market instruments to manage demand for liquidity in a proper way. Until now no action have been taken to promote Islamic money market to reduce the lack of liquidity in Islamic financial industry.

The need for efficient Islamic money market securities still remains. These emerging Islamic banks should have access to Islamic money market in order to facilitate their treasury management functions, indeed, an issuance of Islamic money market will lend to great contributions to the efficiency of Islamic banking and the entire

financial market generally. It helps this emerging Islamic financial market to satisfy the temporary needs of liquidity management that is needed for the smooth function of other financial markets. These problems among other have highlighted the importance of introducing Islamic money market for the Islamic financial industry in Mauritania. Taking into consideration what has been stated above, it is worthy to investigate the possibility of introducing Islamic money market to Mauritania market. Hence, in this research, the writer aims to explore the Mauritania legal framework to assess the possibility of introducing Islamic money market from the legal perspective and how far the Mauritanian Scholars will accept Malaysia Islamic money market as *Sharī'ah* compliance. In other words, this paper will take into consideration the nature of the existing legal framework in Mauritania, and try to shape an Islamic money market model that could meet *Sharī'ah* compliance according to the view of Mauritanian Scholars.

1.3 RESEARCH OBJECTIVES

The objectives of this research are:

- 1) To investigate the possibility of introducing Islamic Money Market under the current Mauritanian legal framework.
- 2) To measure what extent the Islamic Money Market products in Malaysia are considered *Sharī'ah* compliance from viewpoint Mauritanian scholars.
- 3) To learn from the Malaysian IIMM for developing an Islamic money market for Mauritania market

1.4 RESEARCH QUESTIONS

The questions of the research as follow:

1. Does the current regulatory framework in Mauritania provide a room for Islamic money market?
2. Is there a necessity for regulation amendments or new regulation in order to introduce Islamic money market in Mauritania?
3. Does the Mauritania market will welcome the Malaysia IIMM model or some changes could take place to meet the *Shari'ah* requirements from viewpoint of Mauritanian scholars?

1.5 RESEARCH METHODOLOGY

The research is a qualitative research; it is conducted to assess the possibility of introducing Islamic Money market in Mauritania from the legal and *Shari'ah* perspectives. In this section, the discussion will focus on research design, conducting interviews, data collection and data analyze.

1.5.1 Research design

The research is a qualitative research, in which both secondary and primary data were used. Regarding the secondary data, the doctrinal analysis of regulatory framework was used as well as law library resources. For the primary data, the interview was conducted.

1.5.2 Population/ sample

The sample was chosen among the Mauritanian Scholars based on the following criteria:

- The interviewees are four *Shari'ah* scholars; this is to obtain detailed Fatwa with the limited of time.
- The interviewees will have experience in the area of Islamic banking. (In order to obtain Fatwa from those who have exposed to financial sector.

1.5.3 Data collection procedure

The researcher will collected data from primary and secondary resources; the primary data was conducted through interview method, a sample of *Shari'ah* scholars were interviewed. In order to get a comprehensive response from the *Shari'ah* scholars, the researcher used a sort of predetermined questions to be asked to all interviewees. On the other hand, secondary data were obtained through the Mauritanian banking regulations framework, legal library books, Mauritanian official legal journal, and websites.

1.5.4 Data analysis

For the primary data, which is the outcome of interviewing the scholars were contextually analyzed. Scholars' views were compared and analyzed. Also for the secondary data, the information obtained was traced through analytical approach. The regulations were analyzed and examined in order to extract some rules that are relevant to Islamic money market.

1.6 SIGNIFICANCE AND CONTRIBUTION OF THE STUDY

This research will assess the possibility of offering Islamic money market to the Mauritanian market from legal and *Shari'ah* perspectives. The research will provide an integrated and comprehensive plan of issuing Islamic money market to Mauritania

from the perspective of legal and *Shari'ah*. In addition, the output of the research will fill a gap in knowledge and understanding with regards to introducing Islamic money market to Mauritania as well as the similar emerging Islamic financial markets.

1.7 SCOPE AND LIMITATIONS OF THE STUDY

The scope of this research is to focus on the possibility of introducing Islamic money market to the Mauritania market. More precisely, the focus is limited to how Islamic money market could be introduced under the current legal framework, which Malaysia Islamic Money Market products could be accepted as *Shari'ah* compliance in Mauritania market, and which Malaysia Islamic Money Market products could be modified to be *Shari'ah* compliant according to Mauritania *Shari'ah* Scholars.

1.8 THE STRUCTURE OF THE STUDY

This paper was organized according to the following order. It contains six chapters structured as follow:

Chapter One: Introduction

The introductory chapter comprises the research proposal which includes the background of the study, problem statement, aim of the research, research objectives, research questions, research methodology, significant and contribution of the study, scope, limitation of the study and the structure of the research.

Chapter Two: A conceptual framework on Islamic money market

In this chapter, the researcher reviewed previous studies of Islamic money market. The objective is to explain the function of Islamic Money Market and how it is important and could be integrated to Islamic financial system. It will also show how Islamic money market is crucial for Mauritania Market.

Chapter Three: The Existing Mauritania legal framework on money market

This chapter is aimed to undertake analytical approach in analyzing the legal framework of Mauritanian in order to identify the legal challenges and prospective of introducing Islamic money Market instruments in Mauritania and to make a recommendations, in order to overcome those obstacles.

Chapter Four: Learning from the best practices of Islamic Money Market: Malaysia Experience

Malaysia Islamic Money Market could be used as a model to be followed by other countries that are interested in establishing an Islamic Money market, therefore, in this chapter, the structure of Malaysia Islamic Money Market products were explained in order to give a clear picture of the best practices of IIMM in Malaysia.

Chapter Five: The suitable Model for Mauritania Islamic Money Market

The objective of this chapter is to analyze the interviews with the Mauritania *Sharī'ah* Scholars and the findings were discussed and analyzed.

Chapter Six: Conclusion and Recommendations

This chapter is mainly suggestions and recommendations for introducing and the implementing Islamic money market in Mauritania. Moreover, some recommendations were given for enhancing future research in order to build a well-established Islamic money market in Mauritania as well as others similar markets.

CHAPTER TWO

CONCEPTUAL FRAMEWORK ON ISLAMIC MONEY MARKET

There are many studies dealing with money market from different perspectives. Some writers focus on the operational side, while others focus on its characteristics and others, study its instruments. However, most of MM literature agreed that the main objective of Money market as part of financial market is to transfer funds from unit surplus to unit deficit, in other words to transfer money from lenders to borrowers. From the maturity perspective, financial market as a whole could be divided into capital market and money market, the latter is referring generally to a lending and borrowing for a period of one year or less (Laroche 1993).

Money market is needed by financial and non-financial institutions to coincide with their expenditure and demand for cash, these institutions can place their surplus funds in money market instruments which can be quickly converted to cash with low risk because of the short maturity. On the other hand, they can have access to these instruments to fulfill their short term cash demand by raising funds when there is need for liquidity. Money market is characterized by low risk and short maturity, which arrange from one day to one year and it is actively traded in secondary market (Laroche 1993).

2.1 OVERVIEW OF MONEY MARKET

Money market term is used to mean all short term financial instruments, that are based on interest rate whether that interest is paid as a cash deposit or it is implied in a way the instrument is priced and settled as a forward rate agreement (Steiner 2002). The

main purpose of Money market is to facilitate transfer of funds between market agents whom have access and those whom have shortage of money and need to raise funds to meet their short liabilities. Money market allows financial institution and to some extent non-financial institutions to execute functions such as raising funds, Cash management, Risk management, Speculation or position financing Signaling, Providing access to information on price (Valandone 2010):

Money Market usually described as a wholesale markets regarding the large amounts of transaction, Money Market is the most active in financial market in terms of volume of trading (Bank of Russia 2013). Domestic Money market plays an important role as an efficient means for implementing monetary policy, through money market, government can affect both supply and demand side of funds using MM (John 2007). Thus, money market serves execution of monetary policy to be in line with economic policy for a particular country. Moreover, Money Market uses to finance public sector deficits.

2.1.1 Money Market Segments

Generally speaking, money market refers to market for short term funds, with maturity up to one year. Money market can be divided into several segments as follow (Valandone 2010):

- Interbank market, it enables banks and non-deposit financial institutions to settle their contracts with each other and with central bank, when they are driven by temporary liquidity surplus or deficits.
- Primary market, which absorb the issues and enable borrowers to raise new funds.

- Secondary market, for different short term instruments which redistributes the ownership and ensure liquidity, therefore increase supply of funds and reduces its price.
- Derivatives Market, market for financial contracts whose values are derived from underlying money market instruments.

There is an overlap between Interbank Monet market, which referred to the participants and the other money market, which referred to as the instruments that are issued and traded in short term, not more than one year (Valandone 2010).

The Money Market Instruments could be grouped into the following instruments (Federal Reserve Bank of Richmond 1993)

- ✓ Treasury bills and other short-term government securities (up to one year);
- ✓ Interbank loans, deposits and other bank liabilities;
- ✓ Repurchase agreements and similar collateralized short-term loans;
- ✓ Commercial papers, issued by non-deposit entities (non-finance companies, finance companies, local government, etc. ;
- ✓ Certificates of deposit;
- ✓ Eurocurrency instruments;
- ✓ Interest rate and currency derivative instruments.

The characteristics of these instruments are slightly different from one to another, in terms of fulfilling the demand of investors and borrowers for diversification of risk, in terms of rate of return, in terms of maturity and liquidity, and also in terms of diversification of sources of financing and means of payment (Investopadia 2015)