INTRODUCTION

The international financial environment is increasingly drawing attention to an alternative and at the same time, complementary brokerage system that is less geared to debt, speculation and risk. A possible answer is offered by Islamic finance, a financial system in which the guiding principles of its operations and activities are based on the precepts and dictates of the Shariah which constitutes Islamic law and derives its origin directly from the Koran.

The Islamic banking system, presented as "theological dream" theological dream, has become an operational reality and accepted worldwide (Haron, Arzmi 2009). The Islamic finance and the connected activity of the banks have transformed itself from an "embryonic sector" in the '70s into one of the most effective and efficient alternative models of financial intermediation, thanks also to the economic growth of the countries of the Middle East (such as, for example, the United Arab Emirates, Bahrain, Iran) and to the significant phenomena of migration of the Muslim population towards the Western countries.

With a current presence in 75 countries and total assets under management estimated at around 3 billion US dollars, Islamic finance is playing an increasingly important role internationally with annual growth rates of between 15% and 20%.

The first boost to development was in the Arab countries as a result of the oil crisis, which, with the consequent sharp rise in oil prices, created significant liquidity to be placed in those countries, a scenario that reproduced itself at the beginning of the last financial crisis. The expansion has then spread to other Muslim South-East Asian countries accompanied by their economic growth, which has been developing at an accelerated pace in recent years. Even if the studies carried out so far on the relationship between the presence of Muslims and economic growth are not in agreement, the expectations of the development of the Islamic financial sector are based, on the one hand, on the consideration that the Muslims in the world are over 1.5 billion (of which the "Arabs" represent only 15-20%), open to financial schemes adhering to their religious denomination, and on the other hand, on the diffusion in the Western world of more considerable attention to ethical aspects, very close to the principles of Islamic finance. The principles and rules contained in Shariah do not only concern the private sphere of the individual and his relationship with God, but constitute a system of faith, justice, equity, morality at the basis of all relations between men and therefore regulate all their fields of activity such as political, economic, and social. The notion of “Islamic” finance, therefore, indicates the set of financial activities which conform with the principles of the Shariah.

The religious, ethical rules that most influence Islamic finance are the prohibition to apply interests (riba), the prohibition to implement random initiatives that present a high quota of risk and uncertainty (gharar) and the prohibition of speculative or gambling activities (maysir).

It is the prohibition to pay and receive interest that differentiates the Islamic bank from the Western one, commonly called “conventional”, which does not have these religious concerns. The Islamic financial institutions have resorted to different practices to remunerate their intermediation activities: the most important and typical is the profit and loss sharing (PLS). An Islamic bank does not require interest but participates in the results of the use of the funds disbursed. In turn, the depositors participate in the profits realised by the bank at a predetermined rate of distribution. In this way, a sort of “partnership” is created between the bank and the clients to whom it lends money for investments, on the one side, and the bank and depositors on the other.

The recent financial crisis, even though it has hit Islamic banks less strongly than the traditional ones, has created some difficulties for them, forcing the Islamic financial institutions to make changes to their economic-financial activity. The constructive effects are, however, extremely positive results, which have induced the scholars and managers of Islamic banks to reflect on the strategies at the base of their action, on the functioning of their operative models and the range of products and services offered. An international regulatory framework has existed for some years now, but it must be strengthened in order to fully exploit its development potential and become competitive at an international level.

The Islamic Development Bank (IDB) plays a central role in creating internationally accepted standards and procedures. At the same time, the Accounting and Auditing Organization for Islamic Financial Institution (AAOFI) works to improve the internal control of Islamic financial organizations and their accounting transparency.

However, significant efforts still need to be made in the preparation of qualified professionals, the dissemination of knowledge and the application of accounting procedures that systematically lead to clear, easily comparable financial statements.

The objective of this work is, once the cultural foundations essential for a good understanding of Islamic finance have been highlighted, to outline the mechanisms of operation of the Muslim bank, highlighting its products, in order to be of use for the introduction of this alternative business model in the Italian context.

Faithful to the economic-business theory that sees the company at the centre of satisfying a need, the first chapters examine the need for an Islamic bank, starting from the basic principles of Islamic economics and finance and the history of its development with in-depth studies of the theoretical, conceptual and ethical aspects in its action. In this context, it is crucial to identify the guidelines of Islamic business law because religion, morality, law, economics and finance constitute an inseparable whole in the Muslim world. And then a sector framework is outlined: the evolution over time of the economic and financial structures in the Muslim countries, the dimension of development in the world of Islamic banks.

The aim is to provide an overview of the functioning of Islamic financial instruments, highlighting their characteristics and differences compared to the traditional financial system. We proceed, therefore, to identify the typical products of the Islamic bank, following the double perspective of the bank and the client, guaranteeing a vision extended to the principal stakeholder. Furthermore, aspects of applicability of the products are treated, also from the fiscal point of view.

In the following chapters, the principal contracts will be examined most practically, making abstraction from the moral reason that justifies them, except to underline their spirit in order to facilitate the explanation. Alongside the typical operations of the Islamic bank, the activities developed in the Takaful insurance field are presented, as they represent a service often complementary to the banking one, which can be, among other things, in support of the economic sustainability of the banking activity in non-Muslim countries. The sub-objective of this study is, in fact, after highlighting the cultural substratum essential for a proper understanding, to keep a technical vision to make banking and financial products and services directly usable.

Chapter 1
THE NECESSITY

Summary: 1. Background. – 2. Fundamentals of islamic economy and finance. – 2.1. History and development of the Islamic banking system. – 2.2. System evolutionary stages. – 3. Rules and concepts of islamic law in economic and financial activity. – 3.1. The sources of Islamic economic law. – 3.2. The principles of Islamic contract law: notes. – 3.3. Financial and banking legislation.

1. Background

Islam is a monotheist religion cantered on the Koran, Islamic dogma considers it the book of the Word of God (in Arabic: Allah) revealed to Mohammed, considered by the followers of Islam as the last Prophet of God, in the seventh century Saudi Arabia.

In addition to the Koran, many Muslims refer to Muhammad's words, works and approvals, called hadith. However, the different branches of Islam do not agree on the versions of hadith to be considered authentic. The Koran and the so-called "admissible" hadith are two of the four sources of Islamic law, the Sharia; the other two are unanimity (ijma) and analogy (qiyas).

According to the 2016 surveys, Islam has 1.6 billion adherents (22.9% of the world population): this makes it the second religion in the world after Christianity and before Hinduism. It is, in chronological order, the third-largest monotheist current in the family of Abrahamic religions, after Judaism and Christianity with which it shares several common elements.

The spread of Islam outside the Arab world is due to migrations and conversions: at present, Islam is the religion with the highest demographic growth.

The believers are divided into three main branches: the Sunnite collects 90% of the Moslems, the Shiite 10%, Ibadism (*a division of Kharidjism*) less than 1%.

Man's direct relationship with God in the Koran and religious freedom leads to a proliferation of religious tendencies. The lack of clergy allows the existence of different legal norms and different religious schools. At the death of the Prophet, some significant religious differences and the rapid Arab conquest led to political rivalries. Many questions about human freedom, sin, and faith have led to the formation of Muslim theologies that seek to give answers to questions and problems not presented in detail in the divine texts and to face the challenges of life.

The Sunnis consider the Sharia, born from the agreement of the community, as their basic guide and believe that the Caliphs who ruled Islam after the death of the Prophet Muhammad were his successors by right.

The Sunni school is, in turn, organized in different legal schools. There are currently four, but there have been others in the past. These schools accept each other, they organize a certain pluralism regarding legal norms, but they have a common faith. These are, in order of appearance: Hanafi (Abu Hanifa, 700-767); Malikism (Malik ibn Anas lived between 712 and 796); Al-Shafi (Shafi'i 768-820); Hanbalism Ibn Hanbal (781-856). Sunnis call themselves ahlou al-Sunnah to distinguish themselves from various groups considered illegitimate.

The Shiites believe that only the descendants of Mohammed's daughter Fatima and her husband Ali should take the place of the Prophet and believe that after Ali's death Allah sent his descendants, the Imams, as the only divine messengers.

Shiism is divided into several branches, the main ones being:

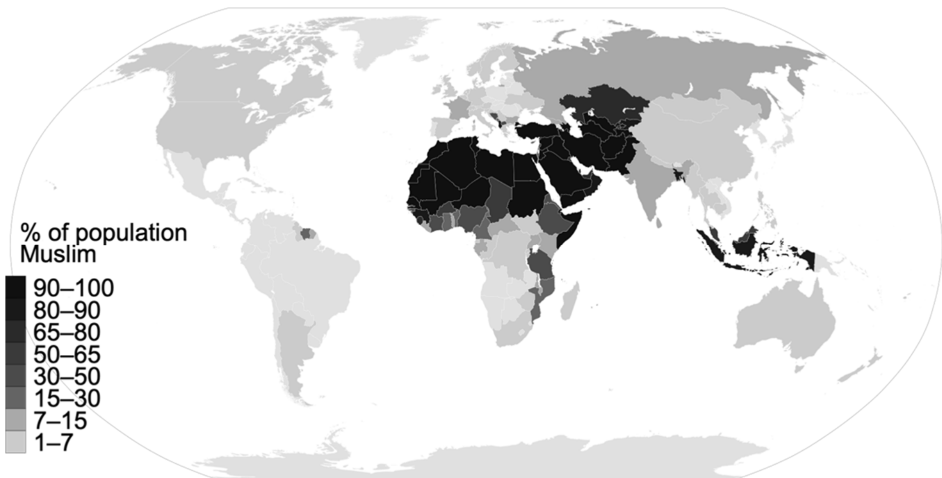
Shism representing 80% of the Shiites; it can be divided into two broad groups:

The "orthodox" as usual (ayatollah clergy, the most common), Akhbari, shayki;

The "heterodox" (Alevis in Turkey, Alawite or "Nusayri" Syria, Shabak, Kakai, Druze in Syria, Israel and Lebanon).

The geographical distribution of Muslims in the currents is well outlined in Figure 1.

Figure 1. – Islam in the World



Source: Pew research centre, 2014.

2. Fundamentals of islamic economy and finance

Islamic finance is a financial system inspired by Shariah that is Islamic law, deriving from this the prohibition to mature and pay interest (in Arabic riba). The Islamic law also prohibits the treatment of risky financial products, since they are considered as games of chance, and to invest in activities considered illicit, such as the sale of alcohol, pork or the production of anti-Islamic films and media.

The central religious precept that guides Islamic finance is the idea that interest is illicit. It might seem that this concept is at odds with many aspects of modern finance but, although Islamic law prohibits the creation of money from money, it does admit that money is used to buy tangible and intangible assets that can generate a profit. Consequently, Islamic financial products are designed to create activities that generate profits for investors, ideally sharing risks and profits.

Under these elements, Islamic finance could be part of the movement of ethical finance that is developing in the western world under different terminologies (*socially responsible investments and sustainable development*) and that constitutes a specific branch of western or conventional finance.

Ethical finance rejects the development of certain economic activities and tries to direct the economy in a path more linked to individual and collective values (*morality, religion, environmental protection*) which, according to his thought, could, however, benefit economic activity. The analysis reveals that the link between Western ethical finance and Islamic finance highlights today, there is no longer Western finance that is detached from moral principles. However, conventional finance is "*tinged with ethics*", and that somehow draws part of its development from ethical considerations and Islamic finance based on religious, moral rules. However, there is a rapprochement between the two concepts.

So Islamic finance may now appear as a case in point of ethical finance of which it represents an example of synthesis with traditional finance [1].

These elements should be useful in the next part of this book. Since to perceive the links between the two systems since they highlight how Islamic finance is not a sector completely distant from another system of thought; therefore, we have instruments of analysis when dealing with the problem also from an accounting point of view.

The first attempts to establish an Islamic banking system date back to the early 1930s, when the members of the Muslim Brotherhood founded an Islamic bank in India and then failed in their understanding.

Successive attempts were made everywhere in Arab countries, but the system took off in the 1970s with the emergence of Islamic banks in Arab League countries [2].

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[1] Guéranger F., *Finance islamicque. Une illustration de la finance éthique*, Dumod, Paris, 2009.

[2] The Arab League consists of the following 22 countries: Algeria, Saudi Arabia, Bahrain, Comoros, Egypt, United Arab Emirates, Djibouti, Jordan, Iraq, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Palestine, Qatar, Syria, Somalia, Sudan, Tunisia, Yemen.

2.1. History and development of the Islamic banking system

The Islamic banking system is defined as a financial system in which the guiding principles of its operations and activities are based on Islamic or Shariah rules. All the operations must be based on the principles of the Shariah. The main factor that distinguishes the Islamic financial system is precisely the fact that all the transactions are developed without introducing the element of interest or riba. Additionally, another element consists in the aim of Islamic banks. Mainly, Islamic banks should provide for the financial needs of the Muslim population, being the management of the bank based on the concept of justice and equity in the interest of society as a whole [3].

The history of Islamic financial operations can be traced back to the early days of Islam, when activities such as deposits, loans and exchange rates already existed. Even before the birth of Islam Mecca was the centre of Middle Eastern trade, but a system of financial institutions had never been created in any way organic. Therefore, it is necessary to go back to more recent times to perceive the appearance of Islamic finance as a system characterized by moral principles which it imposed in the carrying out of financial activities. The development of the modern Islamic financial system is generally traced back to the foundation of the Mit Ghamr Saving Bank in Egypt in 1963.

However, there have not been many previous attempts to create institutions of this kind. Some scholars (Erol and El-Bolour, 1989) argue that the first attempt to establish a non-interest-bearing bank was made in Malaysia in the mid-1940s, while others recall the experiment in India in the 1930s.

The creation of the Mit Ghamr Saving Bank in one of the Muslim agricultural regions of the Nile Valley marked the real beginning of the modern phenomenon. It opened the way to the foundation of other Islamic banks. The services, based on the principles of Shariah, were much appreciated by the local farming community and the number of clients rose rapidly from 17,560 in its first year of operation (1963/1964) to 258,151, at the end of the financial year 1966/1967 and so did the deposits from £40,944 (Egyptian pounds) to 1,828,375. Despite this success, its operations slowed down as a result of unstable economic policy in Egypt and mid-1967 it was absorbed by the Egyptian National Bank (Egypt and Central Bank of Egypt). Because of this incorporation, the ban on interest payments was abandoned. However, it was restored in 1972 with the founding of a new financial institution, the Nasser Social Bank, whose success led Muslim operators around the world to conduct studies on the guidelines of this new reality.

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[3] Please see Haron S., Azmi W., *Islamic Finance and banking system*, McGraw Hill, Selangor (Malaysia), 2009.

The situation was difficult because the scarcity of literature on the subject was accompanied by the fact that many Muslim economists had trained in Western universities that did not have deep foundations in the Islamic economy [4]. The need to create institutions based on the principles of Shariah made itself felt a lot in those years. However, the first steps in the foundation of Islamic banks came from private initiatives rather than governments, even if the full support of governments was always decisive for the success of the initiatives. Many of the banks founded are now operational for thirty years and generate profits.

The development of the Islamic financial system has followed different lines in the various Islamic countries, different from each other in many respects, historical, legislative, operational opportunities and government support. In some countries, such as Iran and Sudan, for example, the financial system is almost wholly Islamized; in others, such as Bahrain, Jordan, the United Arab Emirates and Yemen, there is a system of dualism where both Islamic and conventional banks operate in parallel but separately. In states such as Malaysia, the full support of the government has allowed the Islamic system to develop rapidly and the creation of infrastructure, such as the interbank capital market in 1994, has accelerated its development as well as ties with other countries. Finally, in countries such as Kuwait, Qatar and Turkey there is a mixed system where Islamic and conventional financial services are offered together and in agreement, with the existence of Islamic banks and Islamic branches in conventional banks.

2.2. System evolutionary stages

Six phases of development of the Islamic financial system can be identified, which also include the evolution of accounting and auditing methods and the need to achieve uniformity of accounting and control procedures [5]. The events that have characterized the various phases are highlighted in Table 1.

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[4] Gleratlis, 1990, cites that when the Pakistani authorities wanted to introduce the Islamic financial system into the country, only one in 19 economists called in to deal with the problem was an expert in Islamic economics, and eleven of these had attended universities run by Catholic or Protestant religious.

[5] Ali A.M., "Islamic Financing", working Paper, *Fifth Forum on Islamic Finance 2002 at Harvard University*, Usa.

Table 1. – Evolutionary stages of the Islamic financial system (1950-2010)

First phase of the 1950s	– Islamic economists begin to present models of financial systems based on shariah to replace the Western scheme; – Identification in the contract of Islamic Banking (profit and loss sharing) and the model for the Islamic bank.
Second phase of the 1960s	– identification of techniques and operational mechanisms of Islamic finance; – establishment and subsequent bankruptcy of Mit Ghamr Savings Bank in Egypt; – Founding of the Lembaga Tabung Haji in Malaysia in 1966.
Third phase of the 1970s	– foundation of banks and other Islamic financial institutions; – organization of the first academic activities on Islamic finance; – publication of writings on the subject; – Mudarabah's financial mechanism begins to become operational; – founding of the Dubai Islamic Bank in 1975; – Opening of the Islamic Development Bank, 1975.
Fourth phase of the 1980s	– government intervention to promote Islamic banks; – establishment of banks by the private sector and introduction of new services; – growing interest of Western academics and financial groups in Islamic finance; – conventional banks begin to open windows dedicated to Islamic financial products; – Pakistan, Sudan, Iran, Malaysia and other countries try to change their banking systems or use the Islamic system; – the International Monetary Fund publishes articles and research on Islamic finance; – Creating Islamic fund trusts around the world.
Fifth phase of the 1990s	– growth of Islamic branches in banks; – establishment of an Islamic index in the Dow Jones; – Accounting standards are issued by the relevant body - AAOIFI.
Sixth phase years 2000	– completing the architecture of Islamic finance; – increased focus on risk management and corporate control; – merger of Islamic banks; – creation of a securities market; – establishment of the International Islamic Rating Body in Bahrain in 2002; – the number of Islamic banks reaches 300 at the end of 2008 and Islamic finance grows in all countries with annual increases of 10-15%
Seventh phase since 2010	– Dissemination of Islamic banks in predominantly non-Muslim countries

Source: Authors elaboration.

The first phase takes place in the 1950s and concerns the starting point of the Islamic finance model and the studies of experts on the subject. During this phase, Islamic intellectuals begin to take stock of the concepts of Islamic finance as an alternative to replace the Western financial systems. They dwell on the Mudarabah contractual model, that is, sharing with clients the profits and losses both in the case of deposit of funds and in the case of requests for financing.

The second phase (the ’60s) sees the emergence of the first Islamic financial institutions (such as the Mit Ghamr Saving Bank in Egypt in 1963 and the Lembaga Tabung Haji in Malaysia in 1966) and faces the problems and, in some cases, the failures.

The period of the ’80s is considered the most active in terms of development because many banks were founded, and new products and services were introduced into the financial market. At the same time, the interest of the Western banks for this new formula aroused and in some of them, the first windows branches dedicated to the products and services of this alternative finance began to emerge. Also, the programs of some prominent universities introduce courses on the subject, and the development and growth of Islamic banks in the world become more accessible as the International Monetary Fund also participates in some research and publishes articles on these topics.

In the ’90s, the development of the American market accelerates, where the Dow Jones Islamic Index is introduced, and the accounting principles of the Islamic financial sector are created and diffused by the body in charge, the AAOIFI.

The following period of the 2000s sees the completion of the architecture of Islamic finance and the continuous development of the Islamic banks with rates of 10-15% which brings their presence in 75 countries with a total of financial assets in the sector already exceeding one thousand billion dollars.

Finally, the most recent phenomenon is represented by diffusion, even if with different speeds, in countries with a prevalence of non-Muslims (UK, Germany, Spain, and Luxembourg).

3. Rules and concepts of islamic law in economic and financial activity

To fully understand the technical particularities of Islamic finance, it is necessary to refer to the rules and principles of Islamic law. In the Muslim context, everything starts from the religion which orients both moral principles and the legal and economic principles of the community at the same time. Islam deals with economic issues, and far from recommending the renouncement of earthly goods, it provides teachings to increase the well-being of man. It means improving his living conditions through gains obtained legally; consequently, the Muslim ideology favours economic activity, since with workman can reach the final objective: well-being and wealth respecting the principles of religion. Islamic law cannot be understood if the methods of study used for Italian law or common law are adopted since it is a complete, original system that has its bases and, above all, its method of reasoning: Western law is mostly based on a logical procedure starting from the interpretation of texts and facts, while Muslim law is based on well-defined texts once and for all and on fairness [6].

3.1. The sources of Islamic economic law

The Islamic economic system is mainly governed by Sharia law. The term Sharia (or Shari'ah) means "the way to follow to respect God's law and reach salvation", but it is commonly translated as Islamic law or Islamic law.

The primary source of Shariah is the Koran, a text that addresses all the behaviours of a believer's life in an approach that is both detailed and global. These are pragmatic texts that deal with cases of species rather than theological principles, appealing to fairness, common sense and adaptability.

The Sharia indicates the rules and precepts that every Muslim must observe in every field of action (*i.e. religious, socio-political, cultural and economic*) and that he must follow everywhere in his human history both in his relationship with God and in his action towards other men.

Beside Sharia, there are three secondary sources of law which are considered by some scholars as sources at the basis of Sharia itself: the Hadith, the Ijma and the *Qiyas*.

The Hadith is a set of traditions and rules derived from the Prophet's behaviour and words which has been handed down from generation to generation and adopted by Muslims in maintaining their faith and guiding their actions in different situations of life.

Another source of Islamic law is the Ijma which refers to the collective consensus of Islamic jurists on instances or problems not dealt with by the Koran or the Hadith. The jurists have developed a technique of personal interpretation of unforeseen issues which, in the case of unanimous agreement of all the jurists consulted, makes it possible to identify a rule (Ijma) which constitutes a legal source of Islamic law.

The fourth source comes from reasoning by analogy, which makes it possible to combine revelation with human reason [7]. The original meaning of Qiyas is "to

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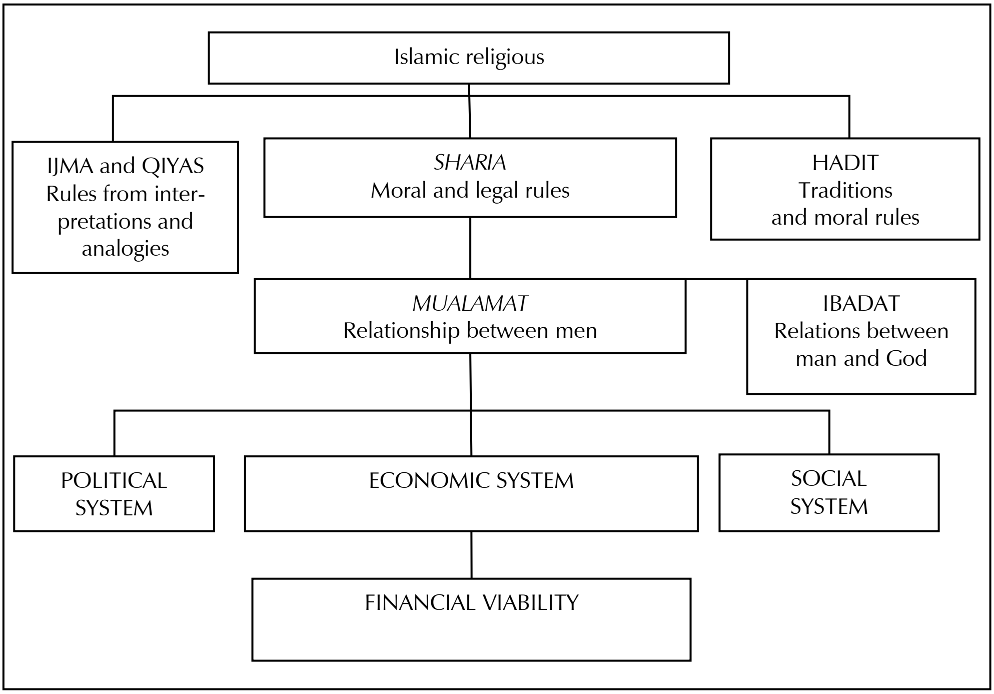
[6] Please, see also David R., Janffret-Sipinasi C., *Les grands systèmes de droit contemporain*, Dalloz, Paris 2002 where it is stated that "Muslim law is for its structure, for the categories and the notions it entails, completely original compared to other systems of law".

[7] Milliot L., Blanc F. *Introdution à l'étude du droit musulman*, Dallaz, Parigi, 1987.

measure" or "to find similarities between two things"[8] and means the process of reasoning by the analogy of an expert jurist in the difficult and dubious questions of doctrine and practice.

Figure 2. – The connection between Islamic religion and finance



Source: Author's elaboration.

The scheme shown in Figure 1 shows the link between Islam and financial activity, which begins with religion, continues with morality, continues with the right to the economy and finally to finance.

3.2. The principles of Islamic contract law: notes

The originality of the law concerns the method of reasoning, which is at once analogical, inductive and deductive[9].

The general nature of financial contracts is based on three main elements:

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[8] Aly, Maulana M., *The religion of Islam*, Lahore (Pakistan), 1950.

[9] For an overview of the peculiarities of financial contract law, please see Guéranger F., cit., 2009.

(a) The individual aspect of the contract;

(b) the constant concern to maintain perfect equality between the contracting parties, a perfect example of commutative justice over which the concept of riba (*interest and usury*) watches over;

(c) The attention to avoid any litigation resulting from ignorance (*ahalat*) of the conditions of exchange, indeterminacy or "*alea*" of the contract guaranteed by the concept of gharar (*uncertainty of results, speculation*). Furthermore, the general principle is that the contract should not cause harm to third parties, except by allowing them certain rights and options.

Islamic financial law is essentially contractual, but it is, as will be seen in the following chapters, very particular agreements: in fact, the parties must comply with standard contracts that define both the object and the conditions of validity precisely and finally the effects of the agreements. The fundamental basis of these model contracts is fairness between the parties, which is reflected in all the principles set out.

It is in this very structured framework that the great Islamic economic concepts such as economic freedom, freedom of initiative and the basic rules of Islamic finance can express themselves: all entrepreneurial activities are, in principle, authorized, except for what is forbidden by the moral law.

This paragraph is intended to highlight the principles of law that underlie Islamic financial contracts.

3.3. Financial and banking legislation

The Islamic banks, as organizations based on religion and profit, must comply with two types of regulations: the Islamic or Sharia law and the one issued by the various countries, which are favourable laws. As noted, however, Sharia law is the Islamic law that regulates the life of Islamic organizations and society entirely, concerning both faith and practice, personal behaviour and social and legal transactions.

In addition to Islamic law, Islamic financial institutions must observe the human-made laws (positive law) in their activities. There is no uniform positive law for Islamic banks because while some countries have introduced specific Islamic financial laws for banks, others have issued regulations that must be followed by all the banks. Therefore, Islamic and non-Muslim, that is emerging in those countries and apart from complying with specific banking laws, Islamic banks must observe other laws relating to the economic and financial activities of the country in which they operate.

Finally, Islamic banks in the various countries are also subject to monetary and political control which is usually the responsibility of the Central Bank. Generally, both the conventional and Islamic banks are governed by the same regulations as regards supervision and monitoring. However, financial instruments that provide for the practice of interest rates cannot be used for Islamic banks.

The existence of this double regulation to follow makes essential for the Islamic bank the presence of a Sharia Supervisory Board, constituted by experts in Islamic law, to ensure that the principles of the Sharia are not violated. These bodies differ in the various banks for the number of members, methods of evaluation and responsibility and this also explains how the annual balance sheets of the Islamic banks differ in content and methods of drafting.

Chapter 2
DEMAND

Summary: 1. The spread of islamic finance and islamic banks in the world. – 1.1. Geographical expansion. – 1.2. Numerical aspects of the development of financial institutions in Islamic countries. – 1.3. Situation of the Islamic banking system: the case of Iran, Sudan, Bahrain. – 1.4. The spread of Islamic banks in Europe and the rest of the world. – 1.5. Islamic finance in the United Kingdom (UK). – 1.5.1. The main operators and services offered. – 1.5.2. A few examples of contracts – Home Purchase Plan. – 1.5.3. The legislation. – 1.6. Islamic finance in France. – 1.6.1. Main operators and services. – 1.6.2. Some examples of contracts. – 1.6.3. Current legislation. – 1.7. Islamic finance in Germany. – 1.7.1. Main operators and services. – 1.7.2. Some examples of contracts – Mastercard KT – Participation accounting. – 1.7.3. Sukuk legislation. – 1.8. Islamic finance in Spain. – 1.9. Islamic finance in Luxembourg. – 1.9.1. Main operators and services. – 1.9.2. Best Practices for Islamic funds. – 1.9.3. Current legislation. – 2. Islamic finance in Italy. – 2.1. Historical background and population. – 2.2. Possibility for Italian SMEs. – 2.2.1. Background of the analysis. – 2.2.2. Sharia-compliant indices. – 2.2.3. Hypothesis. – 2.2.4. Findings. – 2.2.5. Conclusion. – 2.3. A possible outlook for Italy. – 2.4. Development perspectives of Islamic finance in Italy. – 2.4.1. The training projects. – 2.4.2. Development project of retail services. – 2.4.3. Development project of an investment fund for SME's financed by Islamic investors. – 2.5. Development project using crowdfunding. – 2.5.1. Background. – 2.5.2. Conclusion. – 2.6. Possible modifications in the Italian law. – 2.6.1. Direct taxes. – 2.6.2. Indirect taxes.

1. The spread of islamic finance and islamic banks in the world

The history of modern Islamic financial institutions, as noted in paragraph 1.2, is relatively short, but very dynamic. For instance, after the creation of the Islamic Development Bank and the Dubai Islamic Bank in 1975, the idea of the Zero Interest Bank and the related financial services has become increasingly attractive to the 1.6 billion Muslim spread throughout the world. In the last decade, there has been an unlikely expansion of financial activities not only in the traditionally Muslim countries but also in more distant regions.

Unfortunately, in order to measure the phenomenon correctly and make significant forecasts of development, precise data are not available, and the surveys appear fragmentary. Both the IMF and the central banks of individual countries [1] generally refer to the analyses of the review “The Banker” which, since 2007, annually publishes a survey on a global scale of the first five hundred Islamic financial institutions and which, therefore, functions as a benchmark of reference for the entire sector [2]. The data that emerge are, for the moment, held to be the most credible basis for estimating their size, rate of development and profitability.

1.1. Geographical expansion

It is estimated that the Moslems in 2016 reached 1.62 billion adherents, equal to over 23% of the world population; however, according to recent evaluations of The Banker, only 12% of the Moslems in the world would use products of Islamic finance. The projections of the Pew Research Centre reveal that the non-believers in 2050 will fall in percentage terms, passing from 16% to 13% of the world population: the estimated growth for the next 35 years is 35%. There were less than 30 million Muslims in Europe in 1990, but they will exceed 58 million by 2030. The Pew Research Centre study also shows the data for Italy: the estimates for the period 2025-2030 are 1.8 children for every Muslim woman resident in our country against 1.4 for non-Muslims. A gap of 0.4 points, precisely, which – together with the seasonal dynamics – explains why in twenty years, the faithful of Allah is destined to double in the Peninsula.

Italy is among the high countries where the Muslim population will increase the most in percentage terms: +102.1% in twenty years. We will go from 1.58 million immigrants in 2010 (equal to 2.6% of the population) to almost 3.1 million in 2030 (equivalent to 5.4% of the total). Our growth will exceed that of the United Kingdom (+94%) and Spain (82.1%).

The other interesting data is the almost parity (percentage) that will be reached in 2050 between Christians (2.9 billion) and Muslims (2.8 billion): together they will represent 60% of the world population. The overtaking, we read in the report, will take place in 2070. The reasons for the demographic boom of Islam can be identified in the highest fertility rate at the international level: 3.1 children against 2.7 of Christian women. To broaden the discourse to other religions, Hindus show 2.3 children for every woman, Jews 2.3 and non-believers 1.7. The analysis of fertility datum presupposes that the children of Christian families embrace the creed

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[1] Please see Banca d’Italia, “Questioni di Economia e Finanza – Finanza islamica e sistemi finanziari convenzionali. Tendenze di mercato, profili di supervisione e implicazioni per l’attività di banca centrale”, *Occasional Papers* n. 73, 2010.

[2] By Vauna J., Hankock M, “Top 500 Islamic Financial institutions”, *The Banker*, November 2015 supplement.