

A Return to Roots



The history of Islamic finance in Italy traces back to the 9th century, when some regions in Peninsular Italy were part of the Muslim Umma and the island of Sicily was at the center of a flourishing commercial and cultural empire that spread its wings from today's Turkey to Morocco. There is ample evidence that the Sicilian golden tari were used across the Mediterranean Sea as a means of payments and storage of value and that murabahah, mudharabah and musharakah contracts were used to finance trade ventures.

After this golden age and through Italy's unification in 1861, Islamic finance as such was almost entirely absent from Italy, although its basic features were shared by Catholic economic thought, at least until the 13th century.

Islamic Finance in Italy

By Alberto G. Brugnoli

Islamic finance came back in the '70s with the first trickles of North African immigrants arriving mainly from Morocco and Tunisia, soon to be followed by people from Egypt, other Islamic countries, and more recently, Albania. They brought with them, though at a very embryonic and informal stage, their traditional Islamic financial values and in particular, a common belief in risk sharing and social responsibility, the prohibition of riba and the use of hawala for the transfer of money.

Today's Italian Muslim Population

Immigrants started becoming politically visible in the early '90s with the adoption of the first of four laws legalizing immigrants' status. According to the latest Italian official statistics, Muslims make up about 32 percent of the 3,700,000 foreigners living in Italy as of early 2007. To these 1,200,000 Muslim legal residents, another 150,000 unofficial Muslim immigrants should be added. The number of foreign Muslims who have been granted Italian nationality is estimated at 50,000, while Muslims of Italian descent (mainly converts) are estimated to be around 10,000.

So the number of Muslims living in Italy is currently around 1,400,000. They represent 2.3 percent of Italy's population, a percentage much lower than that of other major EU countries, and



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still slightly lower than that recorded in Italy between the middle of the 9th century and the end of the 13th century. They are evenly distributed, with almost 55 percent living in the north of Italy, 25 percent in central Italy, and 20 percent in the south. The relatively small size and young age of the Muslim community means that Islam in Italy is struggling to make a significant impact on public life, although there are signs that the situation is evolving. For example, while Islam, despite being the second-largest faith after Catholicism, is not yet formally recognized by the state, Rome houses the biggest and most beautiful mosque in Europe.

A Pivotal Role in the Mediterranean

Italy's geographical position in the middle of the Mediterranean Sea speaks for itself. Although no

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longer of the Islamic world, Italy plays a key role in the Euro-Arab dialogue and is taking the initiative in shaping a new EU Mediterranean policy. Since the end of WWII, it has had privileged political and economic relationships with the Arab world and has played an important diplomatic role in the Israeli-Palestinian conflict. A joint Italian, French and Spanish initiative, with a European Investment Bank framework, is in an advanced stage of implementation for the possible housing of the headquarters of the Mediterranean Development Bank in Milan.

Italy also ranks first or second as trading partner with a number of Mediterranean countries that signed the Barcelona agreement in 1995, and its total yearly trade balance with the Arab world nears the \$35 billion mark. The implementation of the Mediterranean free trade zone agreement announced for 2010, though slightly delayed, will definitively put the country in the spotlight, as will the World Exposition to be held in Milan in 2015, with multiculturalism and integration as a fundamental part of its strategic vision. Italy is also relevant to Middle Eastern investors for its industrial heritage and trophy real estate investments.

Islamic Finance and Italian Banking

The last major reform of the Italian banking laws took place between 1985 and 1993 and resulted in a model that follows the rules of both public

and business laws and that requires an interdisciplinary approach to the individual issues of the credit system. The emergence of new models of credit brokerage based on principles that are religious in nature and that find their source in the Koran and the Sunnah is one of these issues, and this has resulted in a lively debate on the compatibility of Islamic activities with the current banking regulatory system. The debate focuses on the resolution of important interpretative issues concerning the legal classification of these Islamic activities. In particular, it aims to determine whether the current regulatory structure can embrace the Islamic model of banking activity or whether, in light of any pronounced incompatibility, it becomes necessary to identify other norms that actually permit the legal regulation of the Islamic model.

At stake is the issue of the difference in the level of risk that the depositor assumes in the Islamic vs. the conventional system and the fact that the Islamic banks do not collect interest when providing financing. A possible solution is the use of the so-called "EU passporting" in which an institution authorized in a EU country may offer products throughout the EU without the need to have separate authorization in each member country, as well as use of the second EU directive on banking (646/1989), with its two fundamental principles of mutual recognition and prudential vigilance.

Islamic finance, Italian Business and Civil Society

While in the past, major events were indeed organized, the discussion of Islamic finance was perceived as more a politically correct intellectual exercise than as a serious policy issue. The tide has now turned, thanks mainly to the successful experience of the City of London and to a number of studies and initiatives that have addressed the more general issue of migrants and banking. As a result, momentum has built up in the last two years, with an increasing number of events and publications that have fostered awareness on Islamic finance in the business community and, to a certain extent, in the institutional community as well.

In the past couple of years, several conferences and seminars have been held and studies involving Islamic finance have been published, including a feasibility study published by ASSAIF, a think tank for Shariah-compliant financial engineering — commissioned by the Fondazione Housing Sociale, set up by one of the largest banking foundations in the world — on a Shariah-compliant home finance scheme enforceable under the Italian civil code. In

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October, the Italian Banking Association (ABI) and the Union of Arab Banks (UAB) signed a Memorandum of Understanding in Rome that, in due time, shall lead to the establishment of the first Islamic bank in Italy. The first months of 2008 saw a flurry of small to medium-sized seminars, some organized by law firms, with the participation of top Islamic banker from the Gulf. After the summer break, R. Hamaui and M. Mauri will publish "Economia e Finanza Islamica," which will become the Italian reference book for Islamic finance. Italy has now also its own magazine fully dedicated to Islamic finance published under the name of "Shirka." The first murabaha deal was recently transacted in the historic city of Pavia. This transaction, structured, implemented and financed by ASSAIF, featured the acquisition by a SPV of a disused industrial building and its sale to a local Muslim association for use as a cultural center. It will soon be followed by an ijara wa iqtina' transaction. It satisfied both Shariah and Italian civil code requirements and was completed with the full satisfaction of the Ministry of Finance and local Shariah scholars.

Islamic Finance in Italy: a Perspective

The existence of a sizable Muslim community and the explosion of Islamic finance worldwide have set the stage for the growth of Islamic finance in Italy as well. Although some minor normative changes — such as waiver of the double stamp tax that makes Islamic real estate transactions pricey and a deeper social sharing of the notions of financial inclusion and religious diversification — are needed for its blossoming, there is a viable market for Islamic financial products in Italy. A number of research institutes, banks and legal partnerships are looking at Islamic finance with keen interest and some initiatives are expected in the future months in areas as varied as consumer finance, equity funds, sukuk issues and home finance. This one is a particularly promising market, as in 2007, 20 percent of real estate transactions, in the equivalent to €17.5 billion, registered an immigrant as a buyer.