

Eurasian Studies in Business and Economics 6
Series Editors: Mehmet Huseyin Bilgin · Hakan Danis

Mehmet Huseyin Bilgin
Hakan Danis
Ender Demir
Ugur Can *Editors*

Empirical Studies on Economics of Innovation, Public Economics and Management

Proceedings of the 18th Eurasia
Business and Economics Society
Conference



 Springer

Eurasian Studies in Business and Economics 6

Series editors

Mehmet Huseyin Bilgin, Istanbul, Turkey

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Eurasia Business and Economics Society

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Ender Demir • Ugur Can
Editors

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Preface

This is the sixth issue of the Springer's series *Eurasian Studies in Business and Economics*, which is the official book series of the Eurasia Business and Economics Society (EBES, www.ebesweb.org). This issue includes selected papers presented at the 18th EBES Conference that was held on January, 2016, in the School of Business Administration of American University of Sharjah (AUS) in Dubai, U.A.E. All accepted papers for the issue went through peer-review process and benefited from the comments made during the conference as well.

During the conference, participants had many productive discussions and exchanges that contributed to the success of the conference where 118 papers by 221 colleagues from 43 countries were presented. In addition to publication opportunities in EBES journals (*Eurasian Business Review* and *Eurasian Economic Review*, which are also published by Springer), conference participants were given opportunity to submit their full papers to this Issue. We regret that we could accept only a small portion of those papers.

Theoretical and empirical papers in the series cover diverse areas of business, economics, and finance from many different countries, providing a valuable opportunity to researchers, professionals, and students to catch up with the most recent studies in a diverse set of fields across many countries and regions.

The aim of the EBES conferences is to bring together scientists from business, finance, and economics fields, attract original research papers, and provide them publication opportunities. Each issue of the *Eurasian Studies in Business and Economics* covers a wide variety of topics from business and economics and provides empirical results from many different countries and regions that are less investigated in the existing literature. The current issue covers fields such as:

- i. MANAGEMENT & MARKETING
- ii. ACCOUNTING & FINANCE
- iii. ECONOMICS OF INNOVATION
- iv. GROWTH & DEVELOPMENT
- v. PUBLIC ECONOMICS

Although the papers in this issue may provide empirical results for a specific county or regions, we believe that the readers would have an opportunity to catch up with the most recent studies in a diverse set of fields across many countries and regions and empirical support for the existing literature. In addition, the findings from these papers could be valid for similar economies or regions.

On behalf of the Volume Editors and EBES officers, I would like to thank to all presenters, participants, board members, and keynote speakers, and we are looking forward to seeing you at the upcoming EBES conferences.

Istanbul, Turkey

Ender Demir

Eurasia Business and Economics Society

EBES is a scholarly association for scholars involved in the practice and study of economics, finance, and business worldwide. EBES was founded in 2008 with the purpose of not only promoting academic research in the field of business and economics but also encouraging the intellectual development of scholars. In spite of the term “Eurasia,” the scope should be understood in its broadest term as having a global emphasis.

EBES aims to bring worldwide researchers and professionals together through organizing conferences and publishing academic journals and increase economics, finance, and business knowledge through academic discussions. To reach its goal, EBES benefits from its executive and advisory boards which consist of well-known academicians from all around the world. Every year, with the inclusion of new members, our executive and advisory boards became more diverse and influential. I would like to thank them for their support.

EBES conferences and journals are open to all economics, finance, and business scholars and professionals around the world. Any scholar or professional interested in economics, finance, and business is welcome to attend EBES conferences. Since 2012, EBES has been organizing three conferences every year: one in Istanbul (usually in late May or early June) and two in Europe or Asia (usually in January and October). Since our first conference, around 6824 colleagues from 91 different countries have joined our conferences and 3904 academic papers have been presented. Also, in a very short period of time, *EBES has reached 1394 members from 76 countries.*

Since 2011, EBES has been publishing two academic journals. One of those journals, *Eurasian Business Review—EBR*, is in the fields of industry and business, and the other one, *Eurasian Economic Review—EER*, is in the fields of economics and finance. Both journals are published biannually, and we are committed to having both journals included in SSCI as soon as possible. Both journals have been published by *Springer* since 2014 and are currently indexed in the Emerging Sources Citation Index, *EconLit*, *Google Scholar*, *EBSCO*, *ProQuest*, *ABI/INFORM*, *Business Source*, *International Bibliography of the Social Sciences*

(IBSS), OCLC, Research Papers in Economics (RePEc), Summon by ProQuest, and TOC Premier.

Furthermore, since 2014 Springer has started to publish a new conference proceedings series (*Eurasian Studies in Business and Economics*) which includes selected papers from the EBES conferences. The 10th, 11th, 12th, and 13th EBES Conference Proceedings have already been accepted for inclusion in the Thompson Reuters' *Conference Proceedings Citation Index*, and subsequent conference proceedings are in progress.

On behalf of the EBES officers, I sincerely thank you for your participation and look forward to seeing you at our future conferences. In order to improve our future conferences, we welcome your comments and suggestions. Our success is only possible with your valuable feedback and support.

I hope you enjoy the conference and U.A.E.!

With my very best wishes,

Jonathan Batten, PhD
President

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Part I
Accounting & Finance

Islamic Bonds and Real Estate Securitizations: The Italian Perspective for Issuing a Sukuk

**Giorgio Carlo Brugnoni, Paolo Gaspare Conforti Di Lorenzo,
Raffaele Didonato, Enrico Giustiniani, Lorenzo Lentini, Massimo Mariani,
Claudio Palandra, Fabrizio Petrucci, Antonio Salvi, and Alessandra Tami**

Abstract The research looks at the possible advantages of which Italian companies and public entities could benefit looking at Islamic finance as a viable alternative to conventional finance, in a context characterized by a growing presence of Islamic citizens throughout Europe and Italy and by increasing interest in investing in Italy by Islamic investors. The research investigates the possibility for an Italian entity (corporate or sovereign) to issue a sukuk with a national real-estate underlying, under the current legal, fiscal and technical framework. The aim is to concretely contribute to the awareness about the opportunities that Islamic finance could bring with it and to promote fiscal, normative and regulatory obstacles removal, in order to create a level playing field—as the United Kingdom did—that would allow Islamic finance to develop also in Italy.

Keywords Islamic finance • Sukuk • Real estate • Securitization

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1 Introduction

In the recent years, Islamic finance progressively developed in Europe, especially in the United Kingdom, in France, in Germany and in Luxembourg. In Italy, although increasing conferences and studies contributed to stimulate the debate, no concrete steps have been taken yet to develop Islamic finance or to effectively make aware Italian institutions and companies about the opportunities that the recourse to Islamic finance could bring with it.

This paper: (a) looks at the Islamic finance development, worldwide and in Europe; (b) analyses some of the possible benefits that the Islamic finance development in Italy could bring with it (both for sovereign and corporate), looking at the main challenges which could contribute to slow down its development; (c) investigates the effective possibility for an Italian entity (corporate or sovereign) to issue a sukuk with a national real-estate underline, under the current legal, fiscal and technical framework; (d) identifies—among the Italian listed companies—the ones which could represent a possible investment target for Islamic finance investors—taking care of their Shariah compliance—and tracks their performance over time.

The aim is to concretely contribute to the awareness about the opportunities that Islamic finance could bring with it and to promote fiscal, normative and regulatory obstacles removal, in order to create a level playing field—as the United Kingdom did—that would allow Islamic finance to develop also in Italy. From our point of view, indeed, a country like Italy—geographically, historically and culturally close to the Middle East and North African Islamic countries—should not lose the opportunity to become a Shariah-compliant financial and economic hub as one of the possible strategic drivers to attract foreign investment from Islamic countries and to support business internationalization towards the Middle East and North African Islamic countries.

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The paper is structured as follows. Section “Islamic Finance: Global Trends and Development in Europe” gives a synthetic overview on the Islamic finance development, worldwide and with a specific focus on Europe. Section “Islamic Finance in Italy: Possible Benefits and Main Challenges Towards Companies Internationalization and Foreign Capital Investments” thinks over the possible benefits that Islamic finance in Italy could bring with it. Section “Engineering of Sukuks for Public and Private Italian Entities” investigates the possibilities and the main obstacles for an Italian public entity to structure an Islamic financial operation under the current Italian normative and fiscal framework. Section “Islamic Real Estate Funds and Investments” carries out an analysis of the industry of Islamic Real-Estate funds—in particular focusing on what appears to be the most innovative form of real estate vehicle, namely the Real-Estate Investment Trust (REIT)—and provides some insight on how a *Shariah*-compliant real estate investment could be realized in Italy through viable long-term vehicles managed by professional operators. Section “Islamic Italian Stock-Index: A New Methodology to Build an Italian Listed Company Sharia-Compliant Portfolio” proposes a Sharia-compliant stock index on the Italian stock market and compares its performance with the market index of the Italian Stock Exchange in terms of risk and return, in order to evaluate the ability to develop efficient investment despite the limitations imposed by the Sharia. Section “Financing Italian SMEs: May Be *Sukuks* Considered as a Viable Alternative?” thinks over *sukuks* as a possible viable alternative for Italian SMEs to raise funds. Section “Italian Tax System and Sukuks: Fiscal Challenges Towards a More Level Playing Filed” concludes the paper with some closing remarks underlining the main fiscal challenges regarding Islamic finance products among the current Italian fiscal framework.¹

2 Islamic Finance: Global Trends and Development in Europe

In the recent years, Islamic finance has developed significantly. Although it still represents a marginal share of the global financial system, an increasing interest has spread worldwide. Islamic finance assets, which in the mid-1990s amounted at

¹Sections “Islamic Finance: Global Trends and Development in Europe” and “Islamic Finance in Italy: Possible Benefits and Main Challenges Towards Companies Internationalization and Foreign Capital Investments” are by Giorgio Carlo Brugnoli. Section “Engineering of Sukuks for Public and Private Italian Entities” is by Antonio Salvi, Fabrizio Petrucci and Paolo Gaspare Conforti di Lorenzo. Section “Islamic Real Estate Funds and Investments” is by Massimo Mariani, Lorenzo Lentini and Raffaele Didonato. Section “Islamic Italian Stock-Index: A New Methodology to Build an Italian Listed Company Sharia-Compliant Portfolio” is by Claudio Palandra. Section “Financing Italian SMEs: May Be *Sukuks* Considered as a Viable Alternative?” is by Alessandra Tami. Section “Italian Tax System and Sukuks: Fiscal Challenges Towards a More Level Playing Filed” is by Enrico Giustiniani.

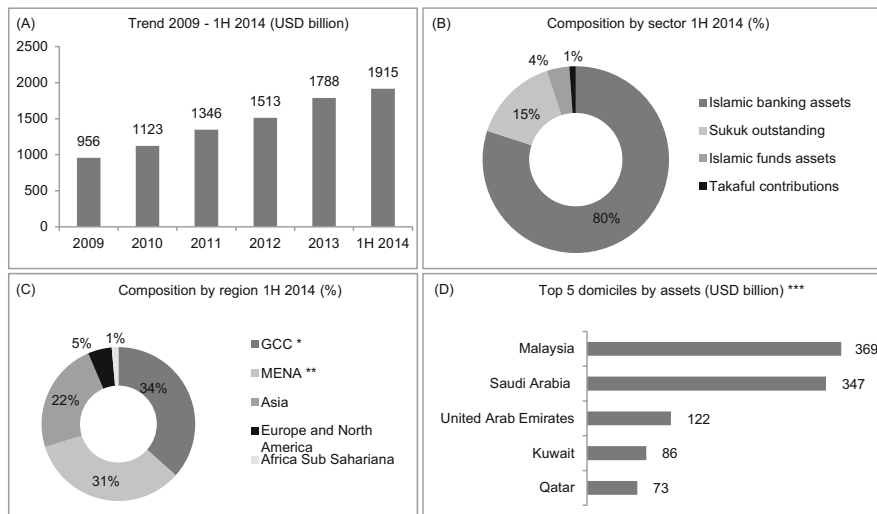


Fig. 1 Islamic finance assets. Source: own elaboration on data from KFH Research Limited (2014). *Single asterisk Gulf Cooperation Council (GCC)*. *Double asterisk Middle East and North Africa (MENA)*. *Triple asterisk Iran excluded*; 2013 for Islamic banking and takaful; 3Q 2014 for sukuk and Islamic funds; for Malaysia including also the Islamic banking assets of the *Development Finance Institutions*

around 150 billion/USD, in 2009 grew to 956 billion/USD, reaching 1.788 billion/USD in 2013 and 1.915 billion/USD in the first half of 2014 (Fig. 1a). Overall, between 2009 and 2013, Islamic finance grew at a compound annual growth rate (CAGR) of around 17% (KFH Research Limited 2014). Together with the more traditional cultural, economic and financial determinant factors, in the last years, Islamic finance development has been influenced also by the increasing interest by western economies, which have identified Islamic finance not only as a viable funding source alternative to the conventional ones, but also as a factor able to positively affect the economic and financial relationships worldwide and as an instrument to support integration and financial inclusion policies, especially in the countries more traditionally characterized by a relevant and increasing share of Muslim population.

Although originally focused among Islamic economies—as in the Gulf Cooperation Council (GCC), in particular in Saudi Arabia and in the United Arab Emirates (UAE), and in Asia, in particular in Malaysia—Islamic finance is today taking increasing relevance also outside the more traditional regions of reference. The Gulf Cooperation Council (GCC), the Middle East and North Africa (MENA) and Asia represent respectively around 34%, 31% and 22% of the Islamic finance industry as a whole (Fig. 1c), with Malaysia and Saudi Arabia leading the market (Fig. 1d), respectively for the sukuk sector and the banking sector.

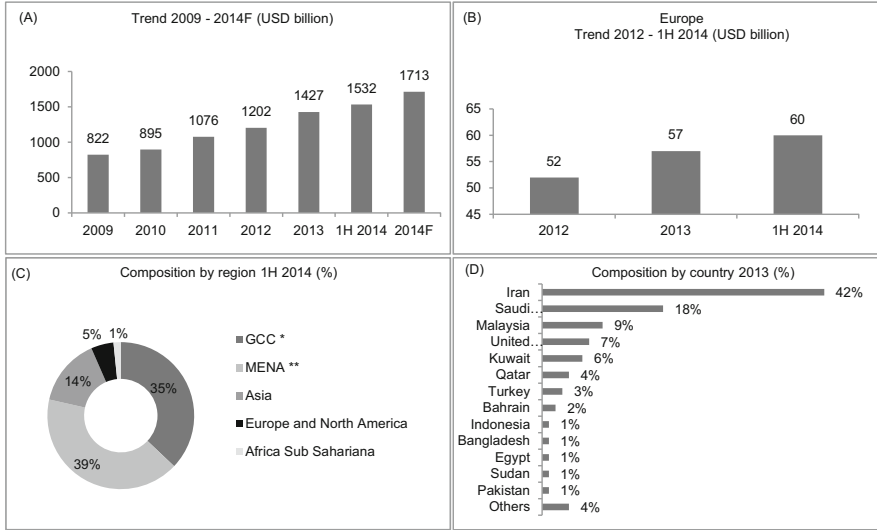


Fig. 2 Islamic banking. Source: own elaboration on data from KFH Research Limited (2014). Single asterisk Gulf Cooperation Council (GCC). Double asterisk Middle East and North Africa (MENA)

Born providing basic banking services, Islamic finance evolved over time, expanding to capital markets—with the development of Shariah-compliant market indexes, of the sukuk market and of Islamic investment funds—and to insurance services (*takaful*). Overall, the Islamic finance industry is dominated by the banking sector (80%), followed by the sukuk market (15%) and by Islamic investment funds (4%), while the *takaful* contribution remains still marginal (1%) (Fig. 1b).

The Islamic banking sector, which represents almost 80% of the Islamic finance industry as whole (Fig. 1b), has developed significantly in the last years, reaching 1.713 billion/USD of total assets from 822 billion/USD in 2009 (Fig. 2a). Overall, between 2008 and 2013 Islamic banking grew at a compound annual growth rate (CAGR) of around 17% (KFH Research Limited 2014). The Gulf Cooperation Council (GCC) and the Middle East and North Africa (MENA) cover respectively around 35% and 39% of the sector (Fig. 2c), with Iran and Saudi Arabia leading the market (Fig. 2d).

In Europe the Islamic banking development looks still marginal—although in progressively growing (Fig. 2b)—and mainly focused in the United Kingdom—where 6 Islamic banks operate² and 13 conventional banks offer Shariah-compliant

²Al Rayan Bank, Bank of London and Middle East, European Islamic Investment Bank, Gatehouse Bank, Qatar Islamic Bank UK, Abu Dhabi Islamic Bank UK (KFH Research Limited 2014).

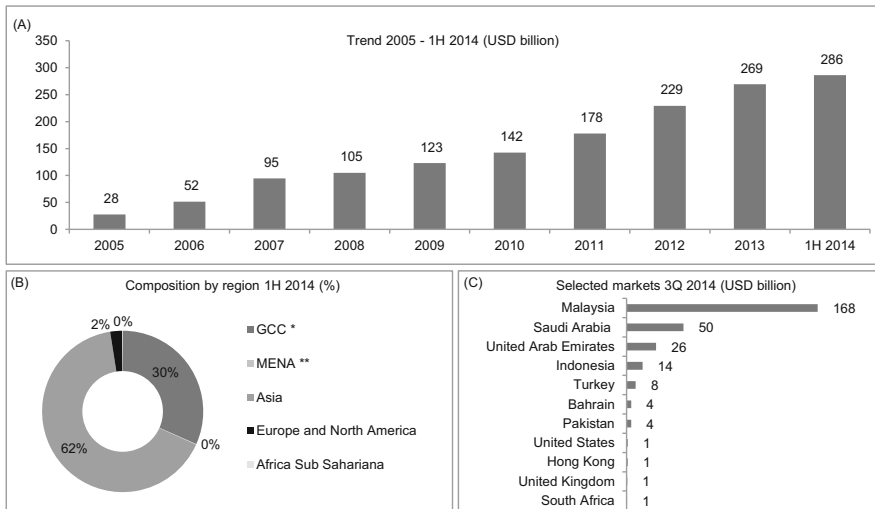


Fig. 3 Sukuk outstanding. Source: own elaboration on data from KFH Research Limited (2014). *Single asterisk Gulf Cooperation Council (GCC). Double asterisk Middle East and North Africa (MENA)*

products and services through Islamic finance windows³—in France and in Germany—where Shariah-compliant banking services are offered by conventional banks through Islamic windows. Moreover, on July 2015 the Turkish bank Kuveyt Turk launched in Germany KT Bank AG, the first Islamic bank in the Euro area. Of course, the first player role that these countries have played in terms of Islamic banking development could be explained by the potential increasing demand for Islamic finance products and services coming from the relevant and increasing share of Muslim population which characterizes these countries.

The sukuk market, which represents around 15% of the Islamic finance industry (Fig. 1b), shows a significant development in terms of outstanding. At the end of 2013 it doubled its size (269 billion/USD) in comparison to 2009 (123 billion/USD). At mid-2014 it reached 286 billion/USD, an amount 10 times higher the 28 billion/USD in 2005 (Fig. 3a). Data on sukuk issuances between 2005 and 2008 (Fig. 4a) show a progressive growing dynamic, interrupted only in 2008—when the sukuk market was conditioned by the global financial crisis effects on the real economy (Gomel et al. 2010)—and in 2013—when the sukuk market was affected by the effects on the global financial markets of the decision by the United States Federal Reserve to gradually reduce its quantitative easing program (Standard & Poor's 2014; Thomson Reuters 2014) and by the decrease in the issuances in Malaysia (Fig. 4b), facing a relevant slowdown of public investments, which in

³Ahli United Bank, ABC International Bank, Barclays, BNP Paribas, Bristol & West, Citibank, Deutsche Bank, United National Bank, Europe Arab Bank, HSBC Amanah, Lloyds Bank, Royal Bank of Scotland, Standard Chartered (KFH Research Limited 2014).

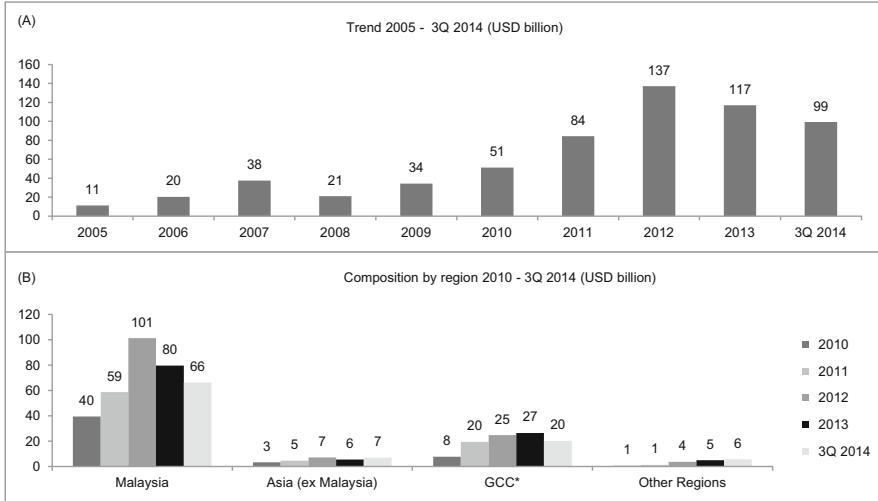


Fig. 4 Sukuk issuances. Source: own elaboration on data from Thomson Reuters (2014). *Single asterisk Gulf Cooperation Council (GCC)*

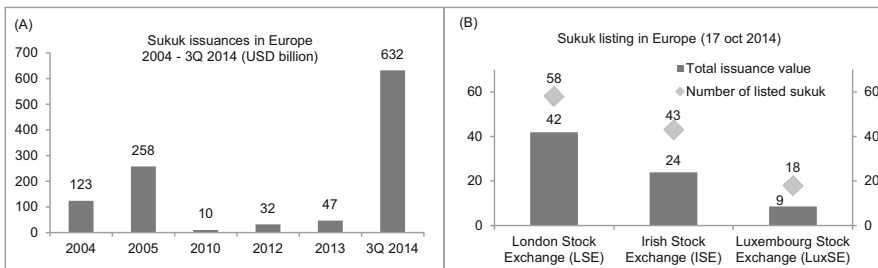


Fig. 5 Sukuk in Europe. Source: own elaboration on data from KFH Research Limited (2014)

the past contributed to support the increasing development of the sukuk market in the country (Standard & Poor’s 2014). Malaysia leads the market, both in terms of outstanding (Fig. 3c) and issuances (Fig. 4b), followed by Saudi Arabia and United Arab Emirates (Fig. 3c). Overall, the sukuk sector is concentrated in Asia (62%) and in the Gulf Cooperation Council (GCC) (30%) (Fig. 3b).

Outside the more traditional countries, in Europe the sukuk market looks quite significant (Fig. 5a). The first European sukuk was issued in 2004 in Germany by the Federal State of Saxony-Anhalt (100 million/€, 5 years). In 2005, the first corporate sukuk in Europe was issued in the United Kingdom (143 million/€, 9 years). In 2010, 2012 and 2013 other sukuk issuances followed in the United Kingdom, in France, in Germany and in Luxembourg. Moreover, in 2014 the United Kingdom issued the first European sovereign sukuk (200 million/€, 5 years) followed by Luxembourg (200 million/€, 5 years). According to Thomson

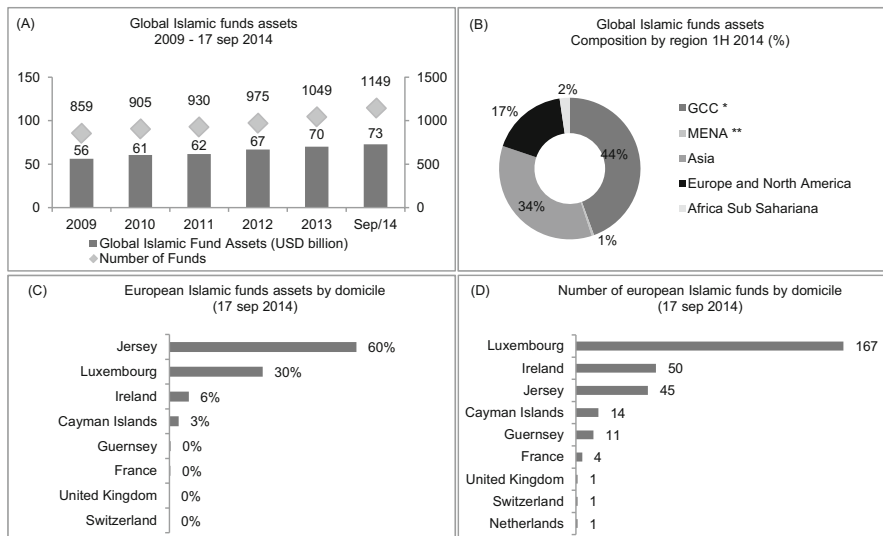


Fig. 6 Islamic investment funds. Source: own elaboration on data from KFH Research Limited (2014). Single asterisk Gulf Cooperation Council (GCC). Double asterisk Middle East and North Africa (MENA)

Reuters (2014), these issuances could represent a stimulus to the development of the sukuk market in Europe, as they could be followed by other corporate sukuk issuances in the same countries or by sovereign sukuk issuances in other European countries. Moreover, Europe represents also a relevant international listing destination for sukuk, in particular the London Stock Exchange (LSE), the Irish Stock Exchange (ISE) and the Luxembourg Stock Exchange (LuxSE) (Fig. 5b).

As for Islamic investment funds, although they represent a lower share of the Islamic finance industry as a whole, in the last years they have registered a relevant development, both in terms of asset under management and number of funds (Fig. 6a). The Gulf Cooperation Council (GCC) and Asia represents the most relevant markets in terms of asset under management (respectively 44% and 34%) (Fig. 6b), with Saudi Arabia and Malaysia representing more than 67% of the market by domicile (KFH Research Limited 2014). Europe, with 294 Islamic funds an around 12 billion/USD of assets under management at 17th September 2014, cover 16% of the sector worldwide (Fig. 6b and c) (17% together with North America) (Fig. 6b). The most significant countries are Jersey, whose 45 funds manage around the 60% of the assets under management in Europe, Luxembourg, which with 167 funds represent around the 30% of the market, and Ireland, whose 50 funds cover the 6% of the market. The appeal of Europe as a domicile for Islamic funds—in particular Luxembourg and Jersey—comes from the combination of fiscal benefits, sophisticated regulation and efficiency, which allow Islamic funds outsourcing a number of operational activities to take advantages of the expertise of

the local service providers (KFH Research Limited 2014). Moreover, in countries as Ireland, France and Malta, the regulatory authorities have progressively introduced some guidelines in order to facilitate the registration of Islamic investment funds.

For further information on Islamic finance and on its development worldwide and in Europe refer to: Kammer et al. (2015), Di Mauro et al. (2013), Gomel et al. (2010), KFH Research Limited (2014), Standard & Poor's (2014) and Thomson Reuters (2014).

3 Islamic Finance in Italy: Possible Benefits and Main Challenges Towards Companies Internationalization and Foreign Capital Investments

As shown in the previous section (Section “Islamic Finance: Global Trends and Development in Europe”), in the recent years Islamic finance progressively developed in Europe, especially in the United Kingdom, in France, in Germany and in Luxembourg. In Italy, although increasing conferences and studies contributed to stimulate the debate, no concrete steps have been taken yet to develop Islamic finance or to effectively make aware the Italian institutions and companies about the opportunities that the recourse to Islamic finance could bring with it.

Italian companies and public entities could benefit looking at Islamic finance as a viable alternative to conventional finance, in a contest characterized by a growing presence of Islamic citizens throughout Europe and Italy and by an increasing interest in investing in Italy as a viable investment alternative for Islamic investors. For public entities, Islamic finance could be a viable financing alternative to support project finance operations, public–private partnerships initiatives and securitization of real estate, in order to promote impact investments (as for urban regeneration, transports and infrastructure improving, smart energy solutions) or just to diversify financing sources. For Italian companies Islamic finance, more than representing a viable alternative to raise funds among funding diversification strategies, could be a key factor to support internationalization plans and business opportunities, especially for those companies typically oriented towards Islamic markets, as the Gulf Cooperation Council (GCC) and the Middle East and North Africa (MENA). Moreover, Islamic finance could represent a strategic driver to attract foreign investment in Italy from Islamic countries, in order to financially support the growth and the consolidation of the Italian productive sector and the improvement of its international competitiveness.

As known, the Italian productive sector is typically characterized by some structural gaps—as the small size of the companies on average, the weak productivity, the low capitalization and the relevant dependence on the banking system to satisfy the financial needs—which could contribute to limit the international competitiveness of Italian companies (Ciferri et al. 2015; D’Aurizio and Cristadoro

2015). In particular, the relevant dependence of Italian companies on banking financial debt in spite of capital resources represents a weakening factor because it makes their ordinary activity and their investment plans strictly influenced by the credit market conditions and it reduces their financial flexibility in taking initiatives to catch business development opportunities, both on national and international markets. Therefore, the strengthening of Italian companies' capitalization and the consolidation of their size represent relevant priorities in order to support their capacity to compete on international markets and to foster long-term growth strategies (Ciferri et al. 2015; Reviglio et al. 2013).

From this point of view, the development of Islamic finance, together with the increasing investment diversification strategies being adopted by investors of the Gulf Cooperation Council (GCC), could represent a relevant strategic opportunity for the Italian system in order to intercept liquidity and capital inflows from Islamic countries to financially support the growth and the development of the Italian productive system, in particular for those companies characterized by activities and financial structures in line with the Shariah requisites in order to be financed. The analysis conducted in section "Islamic Italian Stock-Index: A New Methodology to Build an Italian Listed Company Sharia-Compliant Portfolio" shows that some of the Italian listed companies already satisfy the Shariah-compliant requirements and could be, therefore, viable investment opportunities for the Islamic investors. Moreover, if we consider the widespread appeal of the *Made in Italy* around the world, in particular in the richest countries among the Middle East and North Africa (MENA) as the Gulf Cooperation Council (GCC) ones, the potentialities of Italian companies, financially supported by the resources that could inflow from these countries, could represent a relevant element of stimulus for the development of the Italian productive system in order to achieve a higher international competitiveness. Therefore, although normative and regulatory obstacles, added to some cultural prejudices still persisting in Italy, make illusory to imagine that in the short term the Italian financial system could effectively open to Islamic finance institutions and to the diffusion and commercialization of Shariah-compliant financial products and services and that an Italian Islamic banking sector could effectively develop in Italy—as in other European countries, as in the United Kingdom, in Germany and in France, it has been happening—it could be anyway important that Italian companies—in particular the ones whose businesses are characterized by relevant potentiality and natural orientation to internationalization—understand the strategic value to deal with Shariah requisites in order to represent a viable and interesting investment opportunity also for Islamic investors. Moreover, as highlighted also by the Bank of Italy (Gomel et al. 2010), more than representing a channel to attract new and foreign capitals, Islamic finance could really represent relevant factor able to contribute to the internationalization of Italian companies towards Middle East and North African economies. From this point of view, Italian companies could look at Islamic finance institutions not only as financing sources but also as strategic partners among the internationalization process.

Anyway, Italian public and financial institutions could play a relevant role in promoting internationalization initiatives, not only through the financial support of

exports operations and of direct investments, but also fostering the attraction of foreign investments when they could be strategic and functional in order to significantly support initiatives and projects aimed to strengthen the Italian productive system and to improve Italian companies' competitiveness on international markets. From this point of view, a relevant role in attracting foreign capital inflows to support the strengthening of the Italian productive system is played by the *Italian Strategic Fund* (FSI), owned by the Italian National Promotional Bank *Cassa Depositi e Prestiti* (CDP) (80%) and by the *Bank of Italy* (20%). In particular, for the purpose of this paper, the joint venture with the Qatar Holding LLC (QH) and the investment agreement with the Kuwait Investment Authority (KIA) look quite significant. In March 2013, the *Italian Strategic Fund* (FSI) and the *Qatar Holding LLC* (QH) (investment vehicle by the Qatar Investment Authority), following an investment agreement signed in November 2012, established a 50/50 joint venture named *IQ Made in Italy Investment Company*, with an initial capital of 300 million/€ (although the *Italian Strategic Fund* and the *Qatar Holding* might increase the capital up to 2 billion/€) and with an investment perimeter which includes Italian companies operating in selected *Made in Italy* sectors, such as food and food distribution, fashion and luxury goods, furnishing and design, tourism, leisure and lifestyle. The aim is to support the *Made in Italy* sector, investing in Italian companies with significant potentiality of growth and international expansion, in order to increase their value also through aggregation in order to consolidate Italian brands, their transformation and their growth, both inside Italy and abroad. Moreover, in June 2014, the *Italian Strategic Fund* (FSI) and the *Kuwait Investment Authority* (KIA) created *FSI Investments* as a common investment company with 2.185 billion/€ of assets and commitments, owned by the *Italian Strategic Fund* (FSI) (77%)—which contributed with around 1.2 billion/€, conferring its investment portfolio and other—and by the *Kuwait Investment Authority* (KIA) (23%). In the future, the capital of FSI Investments could be increased through commitments of new co-investors. FSI Investments has the same investment perimeter of FSI, excluding gaming and alcohol, sectors in which KIA cannot invest.

4 Engineering of Sukuks for Public and Private Italian Entities

Sukuks are an important way of financing open to many types of economic operators (companies, governments and supranational institutions), not only Muslim operators. The western multinationals are in fact increasingly (including, for example, General Electric, Nomura, Standard Chartered) complementing the traditional instruments with sukuks in order to raise capital, both within the conventional bonds markets, and the Islamic financial markets. In Europe, between June 25 and October 7, 2014, countries like the United Kingdom and Luxembourg issued sukuks for a total of approximately 480 million/€ and experienced a backlog of

approximately 3.3 billion/€ by different types of institutional subjects. The Luxembourg operation was the first issue in the world in Euro.

In Italy there already are schemes and financial instruments which, by their nature, are suited to the dictates of the Sharia, among these there are: the securitization of public real estate, project financing, public–private partnership (PPP) and the financial public leasing; while the securitization of real assets, mini-bonds and participation bonds, better suit the corporate sector. The Italian legislation on financial instruments (such as the new rules on mini-bonds and equity instruments) is in line with the highest international standards. In particular, the recent legislation on participation bonds facilitates the issuance of project bonds. The sukuk instrument aligns to project bonds, of our own legislation, because they are both characterized by the need to be supported by the cash flow generated by activities of real estate management, then identifying them as asset-based tools.

A case history allows us to compare the profitability, also in order to highlight how the widespread view that sukuk tend to be more expensive than conventional bond is not necessarily true. This is the case of the UAE company TDIC based in Abu Dhabi, which owns some of the most important real estate development transactions of the Arab public field, which, in 2009, issued two separate securities, a conventional bond and a sukuk, with identical issue currency (USD), expiration (2014), issue value (\$1 billion), placement and trading platform (London Stock Exchange). An important difference between these two bonds was the different issue coupon, in fact, for the conventional bond it was set at 6.5% while for the sukuk it was set at 4.95%. One reason lies in the characteristics of the market of the two products: the sukuk is generally less liquid than conventional bonds, as the trend of investors is to hold to maturity. Obviously, if the sukuk market should expand and become deeper, it would then be reasonable to expect a downward trend in yield spreads.

Under current Italian law, in a hypothetical case of realization of a public work in Italy, provided that the process can be adopted through a PPP procedure, the source of financing could be a lease-back of public assets, with the establishment of a special purpose vehicle that would issue the bonds through which financing the work (Fig. 7).

In structuring a Shariah-compliant PPP, to make sure that such an operation can be sustainable in terms of tax burden imposed by the current Italian legislation, the role of the lender should not be limited to that of a mere lender but, in accordance with the well-known principle of profit and loss-sharing inspiring Shariah-compliant finance, the lender should take an active role in the project, for instance as a shareholder (Musharaka financing) or owner (Ijara financing). We should also consider that the Islamic finance PPPs have so far been structured so that lenders could use a direct guarantee on the real estate to be asset-based or asset-backed issued. Obviously, this significantly reduces any risk for the lender and makes this solution particularly attractive for investors rather than others. Assuming the use of PPP for the realization in Italy of a transaction valued approximate at 100 million/€, with a maximum duration of 5.7 years, the cost of financing would probably not differ much from that of a conventional financing. Assuming that the possible rating