

The European Research Centre for Islamic Finance

The European Research Centre for Islamic Finance has between its objectives the study of the Islamic finance Phenomenon, the Diffusion of Islamic financial culture and the study of the compatibility of products for being Sharia Compliant.

Its results included the Creation of EJIF (the European Journal of Islamic Finance), the creation of a course in Islamic finance for 60 participants, the conclusion of an agreement with banks for the development of Sharia compliance products and the creation of a network of 150 scholars and professionals from different Countries² interested in Islamic Finance.

The European Research Centre for Islamic Finance made a research 900 thousand company in order to find the Sharia compliance of Italian SMEs. This research exclude all *Haram* (non Halal) activities that are considered not permitted according to Sharia and the screening was based on qualitative and quantitative criteria.

The qualitative screening criteria examines companies that must have their activities within the permitted activities Halal and avoid all non permitted activities Haram: alcohol and pork related products, pornography, weapons and defence, tobacco, gambling and biological human and animal genetic engineering.

In the quantitative screening criteria financial ratios of the companies are tested for not exceeding specific threshold and thresholds are different in its percentage and calculation formulas among the different global indices.

A comparative overview for the quantitative criteria

	S&P Sharia index	Dow Jones Islamic Market Index	Sharia FTSE Global Equity Index	MSCI Islamic Index	SEC Sharia advisory Council Malaysia
Livello di debito	Debito totale / Capitalizzazione di mercato (media 36 mesi) < 33%	Debito totale / Capitalizzazione di mercato (media 24 mesi) < 33%	Debito totale / Totale attivo < 33%	Debito totale / Totale attivo < 33%	Debito totale / Totale attivo < 33%
Rapporto di interesse	Cash + titoli fruttiferi / Capitalizzazione di mercato (media 36 mesi) < 33 %	Cash + titoli fruttiferi / Capitalizzazione di mercato (media 24 mesi) < 33 %	Liquidità + titoli fruttiferi / Totale attivo < 33 %	Liquidità + titoli fruttiferi / Totale attivo < 33 %	-

1 Director of the Centre of research of on Islamic Finance.

2 Malesia, Qatar, Arabia Saudita, Dubai, ecc.

Rapporto di liquidità	Crediti/ Capitalizzazione di mercato (media 36 mesi) < 49 %	Crediti / Capitalizzazione di mercato (media 24 mesi) < 49 %	Liquidità + crediti/ Totale attivo < 50%	Liquidità + crediti/ Totale attivo < 33.33%	Liquidità / Totale attivo < 33%
Reddito non consentito (NPI)	NPI (esclusi gli interessi) / Totale Ricavi < 5 %	-	NPI (esclusi gli interessi) / Totale Ricavi < 5 %	NPI / Totale Ricavi < 5%	Due classi di NPI / Totale Ricavi Classe 1 < 5 % Classe 2 < 20 %

From this research we can see that 454 Italian SMEs passed the Sharia Compliance Screening, showing that they not have problems with the qualitative criteria of Sharia compliance and that is a great pool and a sufficient market share to start with. The business sectors of this 454 Italian SMEs are:

35% Real Estate

12% Management & Consultancy

10% Wholesale & Retail Trade

8% Construction

35% Others

From the quantitative point of view the majority of the excluded companies were out for their liquidity ratio and the debt level ratio. Companies, however, could handle this problem if they changed their financial structures³.

3 Changing, for example, the debt/equity structure.