



**The Solutions
Collective**
Insights Forum 4
**Shariah Powered Lending:
Is it the key to unlocking
additional capital for diverse
communities?**

Session agenda:

- Social Lending: focusing our capital for impact, our diversity and reach ambitions
Anna Shiel, Chief Investment Officer, Big Society Capital
- Shariah powered lending to communities
Jari Moate, Investment Director, Bristol & Bath Regional Capital
- Developing a Shariah powered funding model
Kamran Rashid, Chief Executive, Impact Hub, Bradford and Majid Hussain, General Manager, Greenville Trust
- Shariah powered lending in practice
Mufti Faraz Adam, Chief Executive Officer & Head Shariah Advisor

Context

Understanding the wider point of making all capital accessible regardless of faith was a clear learning point. Ensuring that communities are not prohibited from engaging because of lending structures.

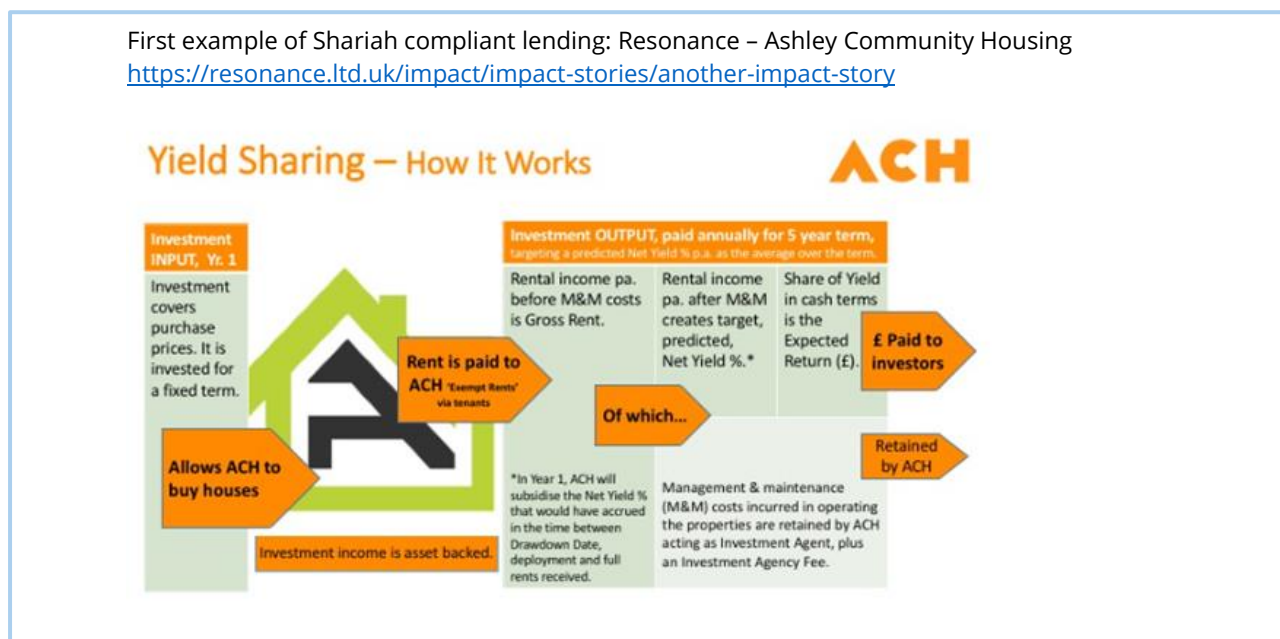
There is an education and acceptance piece required to debunk the myth that Shariah Powered lending is overly complex, as a consequence additionally risky or only for use by those following the Islamic faith.

Definition

“Islamic finance refers to how businesses and individuals raise capital in accordance with Sharia, or Islamic law. It also refers to the types of investments that are permissible under this form of law. Islamic finance can be seen as a unique form of socially responsible investment.”

Source: https://www.investopedia.com/articles/07/islamic_investing.asp

Shariah Powered Lending Case Study



The history

- The practices of Islamic banking are traced back to Medieval era through business people in the Middle East engaging in financial transactions with their European counterparts.
- Instead of emulating European principles alternative transaction methods emerged including some primarily no-interest financial systems that worked on a profit-and-loss sharing method.
- Beginning in the 1960s, Islamic banking resurfaced in the modern world, and since 1975, many new interest-free banks have opened. Though most of these institutions were founded in Muslim countries, Islamic banks also opened in Western Europe during the early 1980s.
- Social investment was established with the purpose of deploying capital to create deep impact with a particular focus on investing in social issues and communities.
- It is no surprise that Shariah powered lending falls squarely within the interest and remit of social investment albeit it seems surprising that this has taken such a long time to get real traction. The first deal was done in 2018.
- In many ways this is due to the lack of understanding and myth around the complexity. As is so often the case anything other than the lending norm is seen as bringing additional risk.

The supply

- Traditionally providers of this sort of finance have come from specialist faith-based lenders.
- Investment from Trusts and Foundations such as Joseph Rowntree Foundation, Barrow Cadbury Trust and the Opr Foundation who all provided support for the Ashley Community Housing deal.
- There is now greater awareness and genuine interest from a range of social investors to ensure their capital is inclusive for all communities with a particular emphasis on those who are underserved and/or who are experiencing additional barriers to accessing investment.
- There is a particular focus from and on place-based lending to ensure that investment products better serve the constituent make up of local population including diversity of faiths.

The demand

- Two key challenges exist in engaging demand for Shariah powered lending:
 - Build trust between faith-based communities and social investors avital component is to ensure that lending is endorsed, delivered supported by local partners.
 - Build understanding of Shariah powered lending as being relevant to all faiths and no faiths not just Islamic communities.

The opportunity

- Ensuring more community centric finance is available to meet the needs of social enterprises and charities is a key goal for our social lending strategy this spans across Local Access, Flexible Finance and Place based programmes.
- Catalytic capital can be utilised to help support this type of patient and flexible capital.
 - Return profile – in this case is often poorly understood by investors. There are structures which include asset backed lending, profit or yield sharing. There is appetite to understand more and education about what are acceptable terms and how to get comfortable with a structure outside of financial instruments norms.
 - Risk – Different does not in this case translate to being more risky. Essentially this is a sharing of risk. The characteristics of understanding governance and the people who are being invested in is the same regardless of investment structure.
 - Effort – Anything which is not well understood can be easily dismissed. Key to working with other professional partners such as legal and accounting as processes will need to be adapted.

Key insights:

- The importance of widening understanding and building trust with both investors and communities
- Legals and accounting processes are often clunky as this is different to other deal structures.
- Language and terms are a barrier to understanding on both investor and investee side.
- UK is behind how this type of funding is used globally.
- In the context of the need for different types of finance shariah powered financing fills a gap of need in equitable and catalytic finance. Providing flexible and patient to support to early-stage ventures and funds.
- Good opportunity to position in a place where there is a real need to support and invest in underserved communities.
- Community shares can also be Shariah Compliant and a [guide](#) produced by the Community Shares Unit has been produced to unlock community investment

Co-creating a Shariah product takes time and importantly flexibility?



"We listened to our communities and understood that for some communities, taking 'Riba' (interest) was not an option so we needed to create a product which responded that need. With the support of grant from Access we have been able to develop a blended finance product. This is known as a 'Godly Loan' (clarifying Arabic terminology - 'Karde Hasnaa') - which is open to everyone regardless of faith or background."

Kamran Rashid, CEO Impact Hub Bradford, Partner Local Access Bradford

Language is key:

As a result of this session we came across a number of terms which were not widely understood. As part of our efforts to simplify understanding of financial language we have added 14 new terms found within Shariah financing to the [Good Finance Jargon Buster](#)

They include:

- [Wakalah](#)
- [Wakalah agreement](#)
- [Waqaf](#)
- [Husna](#)
- [Mudharabah](#)
- [Mudharabah deal](#)
- [Mudharabah contract](#)
- [Qard hassan](#)
- [Riba](#)
- [Riba al fadl](#)
- [Riba al nasiah](#)
- [Sukuk](#)
- [Ujarh](#)
- [Zakat](#)



Waqaf

Commonly known as endowment. This usually involves donating a fixed asset, such as a building or a plot of land, that can produce a financial return or provide benefit to the community.



Qard Hassan

Interest free loan where the same amount of money is borrowed and returned.

Other reading and resources referenced during the discussion or for additional context:

- Islamic bankers resource centre <https://islamicbankers.me/>
- Guide to Islamic finance <https://www.alrayanbank.co.uk/guide-islamic-finance>
- Islamic finance glossary of terms <https://islamicbankers.me/islamic-banking-islamic-contracts/islamic-banking-contracts-and-concepts/glossary-of-terms/>
- Understanding Islamic banking practices <https://www.investopedia.com/terms/i/islamicbanking.asp#:~:text=One%20of%20the%20primary%20differences,is%20referred%20to%20as%20maisir.>
- A Guide to Shariah Compliant Community Shares https://www.uk.coop/sites/default/files/2022-12/CS%20Shariah%20Compliance%20Guidance_2022.pdf

Our Social Lending Strategy

We want to see a social lending market that meets the needs of a diverse range of social purpose organisations and investors alike. To do this we are exploring a range of tools and levers including the use of guarantees, tax, catalytic capital and blended finance structures in order to increase the supply of concessionary capital.

We recognise the importance of partnership and of ensuring that user insight and lived experience are embedded in our design and development processes. The Solutions Collective is an initiative to support the growth of the social lending market in the UK.

Suggested Solutions Collective Future Topics:

To register your interest for future Solutions Collective events or suggest topics please register [here](#)

- Previous topics and insights papers:
- [Guarantees - how can we use government backed guarantees to support more social lending?](#)
- [Catalytic capital - can it enable truly innovative social investment?](#)
- [Tax - what role can tax relief play in facilitating social lending?](#)