

Shariah Compliance for Community Share Offers



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With funding from



£155m+

raised through community share
offers by

104,203

investors



Fordhall Community Farm, Shropshire

**Community
Shares**

CO-OPERATIVES UK
COOP

locality
the power of community

This report was funded by:



**power to
change**

**Community
Shares
Scotland**

92%

of businesses that have raised capital through community shares are still trading today

85%

say that running a community share offer has had a positive impact on financial performance



George Street Community Bookshop, Glossop

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Of the organisations that have run a
share offer

36%

are planning another share offer –

24%

have already done so!



North Kensington Community Energy, London

80%

invest in a community share offer because of
the wider social or environmental benefits of
the business

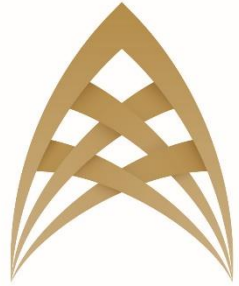
46%

invest because they would become
co-owners of the business



The Community Carrot, Dunbar

Partnership approach



AMANAH
ADVISORS

- Independent, globally recognised Shariah advisory firm.
- **Vision:** A global economic system which preserves the wealth of the affluent, fairly redistributes wealth and empowers the needy.
- **Mission:** To develop and deliver products and investments which espouse the values embedded in Islam such as growth, justice, fairness, transparency, honesty, integrity and empathy.

CO-OPERATIVES UK



Community
Shares

- Co-operatives UK is the network for Britain's thousands of co-operatives. We work to promote, develop and unite member-owned businesses across the economy.
- From high street retailers to community owned pubs, fan owned football clubs to farmer controlled businesses, co-operatives are everywhere and together they are worth £37 billion to the British economy.
- The Community Shares Unit develops the market for community shares, sets best practice standards and invests in innovative community share offers.

What are community shares?

Unique form of finance raising available to Co-operative and Community Benefit Societies

- **Equity.**
- **Withdrawable** shares, repayable finance
- **Non transferable** shares, cannot be sold, do not go up in value
- **Patient, flexible** finance, withdrawal terms and interest payments at discretion of the society
- Confer **democratic ownership** - one member one vote *not* one share one vote
- **Unregulated** by the Financial Services & Markets Act 2000
- Risk capital
- Co-operative Societies - focus on member benefit.
- Community Benefit Societies - focus on community benefit.
- Charitable Community Benefit Societies - focus on public benefit.
- Registered by the **Financial Conduct Authority (FCA)** under the Co-operative and Community Benefit Society Act 2014.

What are we trying to achieve?

Project progression...

1. Scoping out potential for Shariah Compliant Community Shares.
2. Analysing existing model rules through a Shariah lens.
3. Drafting up Shariah compliant versions to our Model Rules and associated guidance note.
4. FCA approval of new Shariah compliant models.
5. Develop Shariah compliant Community Shares Standard Mark assessment framework
6. Identify potential case studies and embed Shariah principles at point of registration.
7. Pilot Shariah compliant community share offers led by Muslim community businesses or co-operatives

Key areas of alignment

Finding the confluence between Society legislation, Co-operative and Shariah principles

- Co-operatives are based on the values of **self-help, self-responsibility, democracy, equality, equity, and solidarity**. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.
- In my view, the concept and driving force of 'community' behind societies is very much aligned with Shariah. The Shariah seeks harmony, togetherness and a sense of community.



Key areas of alignment

Finding the confluence between Society legislation, Co-operative and Shariah principles

- In fact, *Takaful*, the Islamic alternative to insurance, is based on the concept of **social solidarity, co-operation and mutual indemnification of losses of members**. It is a pact among a group of persons who agree to jointly indemnify the loss or damage that may inflict upon any of them, out of the fund they donate collectively.
- It originates from the Arabic word *Kafalah*, which means "guaranteeing each other" or "joint guarantee". The concept is in line with the principles of compensation and shared responsibilities among the community.



Key areas we are amending in our models...

Finding the confluence between Society legislation, Co-operative and Shariah principles

1. Aims and objects – need to be Shariah compliant
2. Borrowing clause – 0% interest
3. Investment of funds – need to be Shariah compliant
4. Clarity on membership shares vs investment shares
5. Addressing transfer of share capital to loan stock
6. Reduction of share value must be based on actual value of the society
7. Fairness of membership strategy and management
8. Interest on share capital and treatment of surplus
9. Dissolution clause / asset lock

CBSs vs ChCBSs vs Co-operative model?



Potential sectors that would fit?

- Grocery stores / retail outlets
- Nurseries
- Day care facilities
- Islamic evening schools
- Children's facilities – soft play etc.
- Sports facilities or outdoor education centres
- Care homes or social care businesses
- Healthcare facilities
- Community hubs – multipurpose facilities

Our approach

- Working in an equal partnership based on mutual interest, respect for each other's expertise and a commitment to detail and practical resolutions of differences.
- Overcoming ignorance or preconceptions through education and knowledge sharing.
- Learning about Islam as a religion and its ethical guiding principles and not conflating it with race, nationality or ethnic background.
- Work with Muslim community businesses to embed Shariah compliance at the core of their organisation, not as a convenient 'add-on' to existing organisations just looking to tick a 'diversity box'
- Acknowledging the diversity within British Muslim communities and interpretation of Shariah principles