CRS offers Muslim communities sharia-compliant savings groups

CRS' savings-led microfinance methodology, Savings and Internal Lending Communities (SILC), has its roots in traditional community-based savings and credit clubs. CRS' SILC methodology significantly improves upon local approaches by helping poor communities create highly sustainable, accessible, transparent, and flexible savings groups. By facilitating savings, rather than promoting external loans, CRS enables the poor to build up useful lump sums of money without incurring costly debt.

A member of the Haske sharia-compliant SILC group in Dogon Gao, Niger, makes a savings deposit. *marc bavois/CRS*

HOW IT WORKS

Participation in a conventional SILC group helps members protect their limited financial resources by shifting their money from poorly protected informal locations (such as under the mattress or in their pockets) to productive investments in group members' businesses. This provides members with a positive return on their savings. In conventional SILC, the accumulation of savings and the subsequent ability to access flexible, interest-bearing loans through an internal lending mechanism, leads to more investments in productive activities (ranging from agricultural production to small businesses), protection of existing assets and acquisition of additional assets to achieve greater household resilience and wealth creation. The end-of-cycle share-out, in which each member receives their savings plus a share of the group's profit proportional to the amount they saved during the cycle, creates useful lump sums to invest in business and household needs at a specific time of the year.

Conventional SILC, which has reached nearly 4.7 million members across 61 countries as of September 2022, has inadvertently excluded many Muslims, whose religious values prohibit paying of *riba* (interest) on loans. As instances of Muslim project participants' discomfort and reluctance to join groups using the conventional SILC model increased, it became clear that entire communities were being excluded from critical activities that used SILC as an entry point to access.

SHARIA-COMPLIANT SILC SOLUTION

In response to this growing concern to serve these excluded poor and marginalized communities, CRS designed a sharia-compliant version of SILC and piloted it in Mauritania and Sudan in 2015-2017. Learning from the pilot was used to improve and complete the model. In 2019, CRS took sharia-compliant SILC to scale in Niger in the USAID-funded Girma project. The Girma project included a robust learning process to identify practices the groups did or did not adopt (and why), measure group financial performance, and evaluate how comfortable members, the communities-at-large, and religious authorities and local leaders were with the sharia-compliant model and its results.

The members of Sharia-compliant SILC group Adara Mokarou at their weekly meeting in Niger. The group's locked cashbox is in the foreground. *marc bavois/CRS*

Sharia-compliant SILC provides members with the same full range of financial services that members enjoy in conventional SILC but observes Islamic finance principles. As such, sharia-compliant SILC **eliminates interest and penalty fees on loans**. The loan policy allows (but does not obligate) groups to charge a **flat loan processing fee** (uniform for all loans, irrespective of amount or duration) to compensate the group for its efforts to mobilize and manage member savings and make them available for borrowing. Borrowers are only responsible for repaying the loan principal, but those whose loan use is profitable may choose to voluntarily give an additional amount to the group as a show of gratitude, following the precepts of qard hasan lending and in line with Hadith 579, Bukhari 6: Book 3: Volume 41, as narrated Jabir bin Abdullah:

> I went to the Prophet while he was in the Mosque. (Mis'ar thinks that Jabir went in the forenoon.) After the Prophet told me to pray two Rakat, he repaid me the debt he owed me and gave me an extra amount.
>
> حدَثَّنَا خَلاَدٌّ، حدَثَّنَا مِسْعَرٌ، حدَثَّنَا مُحَارِبُ بْنُ دِثَارٍ، عَنْ جَابِرِ بْنِ عَبْدِ رضى لله عنهما قَالَ أَتَيْتُ النَبَّيِ صلى
> لله عليهِ وسلم وَهْوَ فِي الْمَسْجِدِ قَالَ مِسْعَرٌ أرُاَه قَالَ ضُحًى فقَالَ " صَلِّ رَكْعَتَيْنِ ". وَكَانَ لِي علَيَهْ دَينٌْ فقَضَاَنيِ وَزَادَنيِ.
>
> The application of this Hadith to SILC is that when you make good use of a loan intended for your development, it is reasonable when paying back the loan to voluntarily give an additional amount to the group above the amount received, as a show of gratitude.

In some contexts, groups make **collective *murabaha* loans**, whereby the SILCs buy goods in bulk and resell them to members on credit with a pre-agreed mark-up, simultaneously allowing members to acquire household goods at a discount and generating profit for the SILC group.

At share-out, members get back their savings in full, and an **equal share of the group profit.**

In addition to the loan and social funds, SILCs are encouraged to operate a third fund for members to make ***sadaqa* (charitable) contributions**. This fund allows the groups to make substantial donations in their own name to address community-level needs and adds a spiritual dimension to group membership.

Collectively, these policies and practices allow group members to benefit from cash loans, conveniently access needed supplies, and still earn a return on their savings – without violating their religious obligations and values.

ASSESSING SHARIA-COMPLIANT SILC

As of December 2021, the USAID-funded Niger Girma project had formed 1,483 sharia-compliant SILCs, of which 245 (16.5%), evenly distributed across the project area, were surveyed between December 2021 to January 2022 to document the policies and practices they employed. The researchers further selected and visited twelve sharia-compliant SILC groups with which they conducted focus group discussions, observed their meetings and examined their ledger books, to gain a greater understanding of the practices the groups have adopted, their financial performance, and how well they understand and accept the methodology.

KEY RESULTS

- Most sharia-compliant SILC groups charged a small, fixed loan processing fee, which contributed significantly to group profit.
- Sixty-five percent of groups that issued cash loans had experienced at least one instance of a member giving a voluntary additional amount beyond the loan principal due.
- *Murabaha* loans to purchase goods were not common and were clustered in specific geographic areas, which suggests the usefulness of this mechanism is contextual. By contrast, groups in the Mauritania and Sudan pilots used *Murabaha* much more readily.
- 99% of surveyed groups reported earning a cycle profit at their most recent share-out, and all shared the profit equally among their members.
- Evaluation of the SAVIX records for 409 sharia-compliant SILC groups that reported share-out data found that most groups generated up to 10% profit on their cycle savings.
- Almost all SILCs operated *sadaqa* funds, and virtually all had made at least one disbursement
- Members, imams and their counsellors, accepted the methodology as legitimate (halal).
- However, 17 of the 35 SILCs that had experienced loan delinquency, had imposed a monetary penalty in violation of sharia, requiring refresher trainings to eliminate this practice.

The evidence from SILC members' experiences in Mauritania, Niger and Sudan shows that the sharia-compliant SILC methodology works as proposed. Members accepted the practice of equal distribution of end-of-cycle profits at share-out, while imams and other community leaders appreciated the community benefits from the *sadaqa* funds. All participants interviewed considered the sharia-compliant practices encouraged by the Field Agent Guide 5.1.1S to be legitimate (halal).