Reaching Underserved Populations with Savings Groups by Complying with Islamic Religious Practices

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IMPACT STATEMENT:

Sharia-compliant Savings and Internal Lending Communities (SILC) provide Muslim communities with the opportunity to save and borrow money, while earning profits from activities compliant with their religious principles and practices—without paying interest on loans, a practice forbidden by Sharia (Islamic law).

A study of a Sharia-compliant SILC pilot in Mauritania and Sudan found that the groups and their members profited from the Sharia-compliant SILC model. The profits generated from the SILC activities provided members with money that they would not have otherwise had, to invest in improving their lives and livelihoods.

PROBLEM STATEMENT/BACKGROUND:

CRS' savings groups methodology, SILC, has successfully brought appropriate financial services to over four million of the world's poor and underserved, yet its use of conventional banking principles has made many Islamic communities reluctant to participate because of their religious prohibition against interest. To allay this reluctance, CRS developed a Sharia-compliant version, informed by pilots in Mauritania and Sudan to ensure approval of religious authorities and compliance with all Islamic banking principles.

INTERVENTION:

Sharia-compliant SILC expands access to financial services to underserved populations, while reinforcing spiritual benefits from using money in compliance with their religion.

Under CRS' Sharia-compliant SILC model, members pay no interest, penalties, or compulsory fees on cash loans. Instead, members can make a voluntary contribution, in addition to repaying the loan principal, to acknowledge that their benefit from the loan supports all group members' financial development.

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Sharia-compliant SILC meeting in Sudan

Sharia-compliant SILC practice includes *Murabaha* lending, whereby the group purchases goods on behalf of the members, who repay with a pre-agreed mark-up; as well as *Qard Hasan* loans—free of interest and profit-sharing margins—with repayment by instalments. The methodology further provides a vehicle to channel members' charitable giving (*Sadaqa*), thus reinforcing their group social cohesion and fulfilling their religious obligations.

RESULTS:

Sharia-compliance improved SILC acceptance among community leaders, including religious leaders in Mauritania and Sudan, where "everyone in the community has [now] seen our [SILC] group work and wants to join." According to a SILC agent, "Now, the imams' wives and children are in SILC." In fact, in one village the success of two existing SILC groups inspired the formation of five more.

In Niger, where Sharia-compliant SILC is being implemented at scale, groups earn an average return on savings of 4.4%.

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