CRS
CATHOLIC RELIEF SERVICES

# The Value of Sharia-Compliant Savings Groups

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A member of Bazata 2 SILC in Kafin Baka village, Niger, contributes to the group's sadaqa fund during a weekly meeting.

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# Abbreviations

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| **CP** | Country program |
| **CRS** | Catholic Relief Services |
| **EARO** | East Africa Regional Office |
| **FA** | Field agent |
| **FCFA** | Francs Communauté Financière Africaine |
| **FGD** | Focus group discussion |
| **FSP** | Financial service provider |
| **HQ** | Headquarters |
| **IGA** | Income generating activity |
| **KII** | Key informant interviews |
| **₦** | Nigerian Naira currency sign |
| **PSP** | Private Service Providers |
| **RFSA** | Resilience Food Security Activity |
| **ROSCA** | Rotating savings and credit association |
| **SG** | Savings groups |
| **SAVIX** | Savings Group Information Exchange |
| **SILC** | Savings and Internal Lending Community |
| **USAID** | United States Agency for International Development |
| **USD** | United States Dollar |

# Executive Summary

Conventional savings groups (SG) consist of 15-30 self-selecting members and provide their members with two means for obtaining useful lump sums of money to invest in business or household needs: interest-bearing loans and 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. While conventional SGs – including the CRS model, Savings and Internal Lending Communities (SILC) – had reached almost 14 million people worldwide by 2016,[1] the interest payments on loans exclude or discomfit many of those, including Muslims, whose religious values prohibit paying interest.

As instances of Muslim project participants' reluctance and even refusal to join SILC groups increased due to frustrations with the conventional model, the need to modify SILC practices to align with the Sharia became evident. In 2016-2017, CRS designed a sharia-compliant version of SILC and piloted it in Mauritania and Sudan. Starting in 2019, the Girma Project – RFSA CRS Niger promoted sharia-compliant SILC at scale, and we present here our learning to date on this approach, including the practices the groups have adopted, the groups' performance, and how comfortable members and community and religious leaders are with the model.

*As instances of Muslim project participants' reluctance and even refusal to join SILC groups increased due to frustrations with the conventional model, the need to modify SILC practices to align with the Sharia became evident.*

## How sharia-compliant SILCs work

The sharia-compliant approach provides members with a full range of SILC financial services, in a way that fully aligns with Islamic law – including zero-interest cash loans and *murabaha*, or "group purchasing." This approach is intended to generate group profit despite the prohibition on interest. Members can feel confident that their rules and practices are sharia compliant, such that religious authorities can give their approval and support their community's participation in SILC.

Sharia-compliant SILC practices can include uniform loan processing fees and voluntary payment of additional amounts at loan repayment in addition to the principal owed, as well as murabaha purchasing. In addition, groups are encouraged to manage a *sadaqa,* or "charity," fund to donate to those in need in their community. At the end of each cycle, members receive their savings back, plus an equal share of the group's profit (rather than a share proportional to the amount each member has saved, as in conventional SILC).

## Context and methods

As of December 1, 2021, the Niger Girma project had formed 1,483 sharia-compliant SILC groups, of which 245 (16.5%), distributed across eleven *communes* (roughly equivalent to counties in the U.S. administrative system), were surveyed from December 2021 to January 2022 to document the policies and practices they employed. The CRS researchers further selected and visited twelve sharia-compliant SILC groups with which they conducted focus group discussions (FGD), observed their meetings and examined their ledger books, to gain a greater understanding of

1 The year 2016 is the most recent for which global savings group data is available. It is likely that the number served worldwide grew significantly between 2016 and 2022, increasing financial inclusion for many people who were previously excluded.

the practices the groups have adopted, their financial performance, and how well they understand and accept the methodology.

## Results

The field research in Niger, including the quantitative survey, the review of SAVIX records and ledger books, and the qualitative FGDs and SILC meeting observations, found the following:

### Loan processing fees

- Most sharia-compliant SILC groups charge fixed loan processing fees, which contribute significantly to group profit.

### Voluntary additional payments at loan repayment

- Sixty-five percent of groups that issued cash loans had experienced at least one instance of a member giving an additional amount beyond the principal due.
- Observations of group ledgers indicated that additional amounts paid were modest.
- Even though the amounts given are at borrowers' discretion, and are not set by group policy, the additional amounts given by individuals were generally close in value to their group's loan processing fee.

### Delinquent loan policies

- In the survey, 14% (35) of groups had experienced delinquent loan repayments.
- Among these, 34% charged a new loan processing fee and 14% charged a fine.
- In the FGDs, three of the twelve groups interviewed said they charged a "new loan processing fee." One said they had issued a fine in the amount of the loan processing fee. Another said their policy was to impose a fine on a borrower after one week's delinquency, but that they had not yet had to apply their policy.
- To remain sharia compliant, groups must not charge monetary penalties on delinquent loans.

### Murabaha

- Purchasing of goods rather than giving cash loans was not common among the sharia-compliant SILCs surveyed.
- Fewer than one in ten SILCs had purchased goods and distributed those goods in loans to members. These groups were concentrated in just two *communes*, suggesting that the concept of murabaha is more useful in some market settings than in others. Most of these groups reported adding a mark-up to generate group profit.
- The main benefits of murabaha loans mentioned by the two FGD SILC groups that had practiced it, were splitting transport costs to acquire necessities, and increasing group cohesion.

### End-of-cycle share-out and profit

- In the quantitative survey, 99% of the 245 groups surveyed reported earning a cycle profit at their last share-out, and all shared the profit equally among their members.
- Evaluation of the SAVIX records (as of February 5, 2022) for 409 sharia-compliant SILCs that reported end-of-cycle share-out data found that groups' returns on

savings (ROS) ranged from losses to greater than 20%, with most groups earning between zero and 10%.

## Sadaqa

- The survey found that 98% of groups operated sadaqa funds and almost all of those had made at least one disbursement.
- Reported uses for the larger charitable outlays included purchasing items for the local mosque, such as mats, water containers and electricity credits.
- Sadaqa cash was given directly to the mosque and as gifts to vulnerable community members, such as the elderly, blind and poor, or to Quranic students.
- Sadaqa cash paid for repairs for the village water pump or well, and to purchase a stock of burial shrouds

## Community acceptance and member satisfaction

- Members in sharia-compliant SILC groups accepted the methodology, and imams and other local leaders found it legitimate (*halal*).
- Imams' and their counsellors' acceptance was demonstrated by the fact that some of their wives and offspring were SILC members.

## Conclusion

*The quantitative and qualitative evidence gathered from sharia-compliant SILC members' experiences in Mauritania, Niger and Sudan show that the sharia-compliant SILC methodology works as proposed.*

The quantitative and qualitative evidence gathered from sharia-compliant SILC members' experiences in Mauritania, Niger and Sudan show 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 considered the sharia-compliant practices encouraged by the FA Guide to be legitimate.

While sharia-compliant SILC has yielded positive results at scale in Niger, some cautions are in order for future implementation of the model.

1. In no context should the same trainers of trainers and PSPs implement both the conventional and sharia-compliant SILC models.
2. If the sharia-compliant model is selected for implementation, the project staff must train participants on the sharia-compliant SILC model as written in the guide, and not make changes lest the introduced changes inadvertently violate sharia and thus invalidate the entire methodology.
3. Fines and additional processing fees imposed on borrowers whose loan repayments are delinquent violate sharia and must not be applied.

The sharia-compliant SILC methodology as described in CRS' FA Guide is fully compliant with sharia. The sharia-compliant SILC approach is viable because it is both useful and profitable for members and acceptable to religious authorities. If SILC groups follow the guidance as written without introducing modifications, they will be aligned with sharia. But because the adoption of even a single non-compliant practice places a group in complete non-compliance with sharia, training of new groups and refresher trainings of existing sharia-compliant SILCs must take sufficient time to explain and justify the sharia-compliance of the methodology's recommended or encouraged practices and discourage those innovations that violate sharia.

Sharia-compliant SILC group Adara Mokarou's members await the start of their weekly meeting in Niger. The group's locked cashbox is in the foreground. [Photo by marc bavois for CRS]

# 1. Introduction

Savings Groups (SG) are a "decentralized, non-institutional, savings-led approach to microfinance" in response to widespread financial exclusion (Allen and Panetta 2010)[2] that successfully reaches the ultra-poor and other vulnerable populations (Allen 2018, Gash 2017).[3] Consisting of 15-30 self-selecting members, SGs are member owned and operated and provide their members with means to save at weekly meetings and borrow money as needed. Conventional SGs provide their members with two means for obtaining useful lump sums of money to invest in business or household needs: interest-bearing loans and end-of-cycle share-out.

While conventional SGs – including the CRS model, Savings and Internal Lending Communities (SILC) – had reached nearly 14 million people worldwide by 2016 (VSL Associates),[4] the interest payments on loans exclude or discomfit many of those whose religious values prohibit paying interest. Consequently, promoting conventional SGs in Muslim communities risks trapping project participants between a rock and a hard place – the models do not offer zero-interest loans, but all poor residents of areas where SGs are promoted still need access to finance.

**CONVENTIONAL SILC BASICS**

- Groups consist of 15-30 self-selecting members.
- Regular savings deposits are pooled into a group fund.
- Members can take short-term loans which they repay with interest.
- Fund is liquidated annually, and members get their cumulative savings back, with a proportional share of group profit.
- Separate social fund for crises and emergencies.

*Agencies across the international development sector – including CRS – face the problem of excluding Muslim communities from conventional models of SGs due to the practice of interest.*

When facilitating agencies and their local implementing partners promote SGs in majority-Muslim areas, many potential members elect not to join a group, while others do join or form groups but make adaptations to the model to avoid interest. However, some groups operate for a time and then fold due to social pressure in the community to comply with sharia and the group members' discomfort with financial practices that violate sharia.

Agencies across the international development sector – including CRS – face the problem of excluding Muslim communities from conventional models of SGs due to the practice of interest. Over the course of the last decade, SILC groups associated

2 Hugh Allen and David Panetta, *Savings Groups: What Are They?* (The SEEP Network, June 2010), URL: https://www.findevgateway.org/sites/default/files/publications/files/mfg-en-paper-savings-groups-what-are-they-jun-2010.pdf. Accessed September 20, 2022.

3 Benjamin S Allen, *State of Practice: Savings Groups and the Dynamics of Inclusion.* (The SEEP Network, 2018), URL: https://www.crs.org/sites/default/files/tools-research/seep_state-of-practice_savings-groups-and-the-dynamics-of-inclusion.pdf. Accessed September 20, 2022.
Megan Gash, *Understanding the Impact of Savings Groups*, (The SEEP Network 2018), URL: https://www.rfilc.org/library/understanding-the-impact-of-savings-groups/. Accessed September 20, 2022.

4 Cited in Allen, B. (2018), *op. cit.*

with CRS projects in Muslim areas have shown how groups adapt their practices to align with their values, as well as the consequences for projects and communities of promoting conventional SILC among people who adhere to sharia:

- In Khartoum, Sudan, to avoid charging interest on loans, SILCs declined to issue cash loans, and instead conducted group goods purchases with markups to provide profit for their groups.
- In Darfur, Sudan, conventional SILCs issued cash loans and charged interest, but the government had to be convinced that the practice was useful and did not violate sharia, as all profit from interest would be distributed back to the members at the end-of-cycle share-out.
- In Mauritania, once a project that had promoted conventional SILC closed, many of the groups stopped functioning.
- In Senegal, where most communities were already comfortable with conventional SILC, a project declined to continue to operate in a village that rejected interest-bearing loans, leaving those community members excluded from the benefits of SILC membership.
- In Niger, in the southern half of the Zinder region that borders Nigeria, prior savings group projects had managed to instill the practice of interest payments in most groups. They did so by arguing that interest payments remained in the group, increase loanable funds, and reverted to members at share-out. Groups formed more recently, however, were less likely to accept interest, which suggests that it may take projects time and repetition to instill a culture within savings groups that accepts interest.

As instances of project participants' refusal to join SILC groups and SILC members' frustrations with the conventional model and embrace of modifications reached a critical mass, demand for a sharia-compliant alternative became clear. In 2016-2017, CRS designed a sharia-compliant version of SILC and piloted it with existing SILC groups in and around Bogué, Mauritania, and with newly formed SILCs in Darfur, Sudan.

### ISLAMIC FINANCE

The principles of Islamic finance are laid down in sharia (Islamic law). Islamic finance, comprising financial transactions in banks and non-bank, formal and non-formal financial institutions, is based on the concept of a social order of brotherhood and solidarity. The participants in these transactions are considered business partners, who jointly bear the risks and profits. As such, Islamic financial instruments and products are equity-oriented and based on various forms of profit and loss sharing.

The Mauritania and Sudan pilots were carefully observed and studied through three field visits – in 2017 in Mauritania and 2018 in Mauritania and Sudan. The observations of SILC group meetings and focus group discussions (FGD) during these field visits informed revisions to the sharia-compliant SILC methodology. The Girma Project – RFSA[5] CRS Niger then implemented the revised methodology – embodied in the SILC FA Guide 5.1S and described in detail in this report – at scale starting in 2019.

5 Resilience Food Security Activity, financed by the USAID Bureau for Humanitarian Assistance.

# 2. How sharia-compliant SILCs work

The sharia-compliant SILC approach provides members with a full range of financial services, comparable to what members enjoy in conventional SILC, but in a way that fully aligns with Islamic law. Crucially, members should be able to take out zero-interest cash loans (*Qard Hasan*) for any purpose, and not be restricted to murabaha financing of goods. Despite the prohibition on interest, groups should generate profit to return to their members at share-out, since profit provides motivation for SILC members to continue to participate over multiple cycles. Finally, members should feel confident that their rules and practices are sharia compliant, such that religious authorities can support their community's participation in SILC.

**QARD HASAN ( قرض الحسن )**

Loans free of interest and profit-sharing margins, repaid by instalments.

*The sharia-compliant SILC approach provides members with a full range of financial services, comparable to what members enjoy in conventional SILC, but in a way that fully aligns with Islamic law.*

## Fixed loan processing fees

The most significant changes from conventional to sharia-compliant SILC concern loan policies. The conventional SILC approach of charging borrowers interest – an amount that is proportional to the loan amount and/or related to its duration – is forbidden, regardless of how it is labeled (interest, service charge, thank you) and whether it is applied at loan disbursement or with repayments. In sharia-compliant SILC, each group discusses and decides whether it wants to charge a small, uniform loan processing fee that applies to all loans, for all purposes, irrespective of loan amount or term. This fee is a compensation for the group's efforts to mobilize and manage member savings, make them available for borrowing and analyze members' loan requests. It is expected that groups that decide to set a modest loan processing fee will ensure that it does not penalize members who borrow small amounts. The fee is charged at the time the loan is disbursed.

## Voluntary additional amounts at loan repayment

Once a member has been issued a loan, she is only responsible for repaying the principal amount; however, borrowers may voluntarily decide to add an additional amount to their repayments as a show of gratitude for the opportunity to access and use the funds to better their circumstances. In the sharia-compliant SILC training, this additional payment is explained and justified in three ways:

1. First, the additional amount is likened to the local practice of returning a borrowed object with a small gift: for example, a borrowed animal is returned with some fodder, or cooking pots borrowed for an event are returned with some food.

2. Second, a hadith[6] establishes the religious legitimacy of this practice in the realm of cash loans, while making it clear that the borrower *first* repays the loan principal (which is the agreement between the lender and the borrower), *then* makes an additional payment (which is at the borrower's discretion).

**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.

حَدَّثَنَا خَلاَّدٌ، حَدَّثَنَا مِسْعَرٌ، حَدَّثَنَا مُحَارِبُ بْنُ دِثَارٍ، عَنْ جَابِرِ بْنِ عَبْدِ اللَّهِ ـ رضى الله عنهما ـ قَالَ أَتَيْتُ النَّبِيَّ صلى الله عليه وسلم وَهْوَ فِي الْمَسْجِدِ ـ قَالَ مِسْعَرٌ أُرَاهُ قَالَ ضُحًى ـ فَقَالَ " صَلِّ رَكْعَتَيْنِ ". وَكَانَ لِي عَلَيْهِ دَيْنٌ فَقَضَانِي وَزَادَنِي. كتاب فى الإستقراض.

*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.*

3. Finally, an apocryphal story illustrates various scenarios in which some SILC borrowers give additional amounts at loan repayment while others do not. This story makes it clear that additional payments are permissible but not compulsory, and that there is no 'formula' based on loan use, outcome or circumstance that determines when an extra amount should be paid and how much should be paid – it is purely a personal decision reached by each borrower.

Altogether, these three training devices create an environment in which borrowers are free, but never compelled, to express their gratitude to the group for the opportunity to borrow, in a way that is acceptable in Islam.

## Delinquent loan policies

Sharia-compliant adaptations are also made to policies related to late loan repayments. While groups in conventional SILC typically set policies to dissuade and punish delinquent borrowers – through fines, fees or penalty interest – sharia-compliant SILC groups may not charge borrowers amounts beyond the loan principal. The inability to dissuade late payments through financial penalty is dealt with in several ways:

1. Groups are invited to reflect on the consequences of late repayment, focusing on the inconvenience to other members.
2. A hadith that extols the virtues of good repayment intentions is cited.
3. Groups are asked to decide their policy for dissuading and handling late repayments.
4. Finally, groups are encouraged to consult with local religious authorities to ensure the chosen policy aligns with sharia.

6 Hadith (Sunnah) is all that the prophet Muhammad – peace and blessings be upon him – said, including all his words, deeds, reports, ethical characteristics, moral character, or biography that was reported on him, whether before or after the mission of prophecy. Hadiths constitute the major source of guidance for Muslims apart from the Quran.

## Murabaha

In addition to cash loans to members, and distinct from group investments (e.g., animal fattening, speculating on grain, or purchasing an income-generating asset such as rentable furniture or a cart), the sharia-compliant SILC methodology proposes to groups that they engage in *murabaha*, which is termed 'group purchasing' in the guide.

**MURABAHA ( مرابحة )**

A sales contract between a financial service provider (FSP), in this case a SILC, and its customers, in this case individual members of the group, for trade financing or to purchase consumer goods. The FSP purchases goods ordered by the customer; the customer pays the original price plus a profit margin agreed upon by the two parties. Repayment is done by instalments within a specified period.

A group draws up a list of items members wish to purchase and sends at least two representatives (as an internal control) to buy them using money from the main fund. Members are given the items they requested and repay in cash within a set period. Groups can decide to charge borrowers a mark-up, which must be agreed to at the time the items are disbursed, or simply the purchase price. In institutional Islamic finance, murabaha is widely used for big-ticket items such as appliances; in sharia-compliant SILC it allows members to defer paying for ordinary goods and may make goods less expensive if the group is able to negotiate a bulk discount at the market. Murabaha may also enable members to get goods from distant markets, since the transportation costs are spread across the group.

*In sharia-compliant SILC, the group's profit is divided equally among members at share-out.*

## End-of-cycle share-out of group profits

The principle and formula for allocating end-of-cycle profit among members in sharia-compliant SILC differs from conventional SILC, where the cycle profit (the difference between group assets and cumulative savings) is apportioned according to each member's savings balance i.e., the more one saves, the greater one's share of profit. This conventional SILC practice recognizes that a significant amount of profit comes from interest payments and rewards the members whose savings were used (and were therefore at risk).

In sharia-compliant SILC, in contrast, after member savings are returned in full, the group's profit is divided equally among members, which severs the proportional relationship between savings amount and profit. Profit comes from loan processing fees (which depends on the number of loans, not their value), additional amounts (which are purely discretionary), fines, income from group investments, and mark-ups on murabaha purchases for SILC members. The equal division of profit among members serves to reinforce group solidarity. Similarly, if the group experiences a loss, the loss is shared equally among members. However, if one member's actions directly result in reduced profit (e.g., through loan default or mismanagement of a group asset) then that member will not participate in profit sharing.

## Social fund

In conventional SILC, social fund payouts may use two mechanisms. For each purpose (such as death in the family, illness, school fees) the group will decide ahead of time whether the amount is granted to the member, or whether the member will

need to repay it without interest or a strict due date. Groups frequently reserve these 'soft loans' for predictable expenses that are likely to happen to every member and are social in nature, such as school fees or medical expenses. In sharia-compliant SILC, since loans from the main fund do not attract interest, there is no reason to make a provision for soft loans from the social fund (members may borrow for school fees from the main fund), and the training only mentions grants as the payout mechanism for the social fund.

## Sadaqa fund

In addition to the main and social funds, groups are encouraged to operate a third fund that gives members a way to practice sadaqa[7] within their SILC groups. Members can make voluntary and anonymous contributions to the fund, as can non-members, which are pooled and stored by the group until the group decides for what or to whom to donate. Contributions are not tracked or recorded by name, but the group systematically counts and tracks the balance, as it does for the other group funds. Groups use the sadaqa fund to meet community needs, coming to agreement about donations to help less-fortunate community members or local institutions in need. The sadaqa fund allows the group to make substantial donations to address community-level needs and adds a spiritual dimension to the benefits of sharia-compliant SILC membership.

7 Sadaqa means giving away your wealth and material good to the needy for the sake of God. In current times, sadaqa has come to mean charity that is voluntarily given. Unlike *zakat*, which is supposed to be given in a certain timeframe and for a specific amount, sadaqa is not given any timeframe or any type of limits.

Member contributions in the Bazata 2 sharia-compliant SILC group's sadaqa bowl, Kafin Baka village, Niger. [Photo by marc bavois for CRS]

# 3. Evaluating sharia-compliant SILC at scale

## Girma Project – RFSA CRS Niger context

The Girma Project – RFSA CRS Niger started implementing sharia-compliant SILC in 2019.[8] The Girma project, which began in October 2018 and runs through September 2023, is supported by the United States Agency for International Development's (USAID) Bureau for Humanitarian Assistance and implemented by CRS and its partners.[9] The project seeks to improve and sustain food and nutrition security and resilience among extremely and very vulnerable households and communities in Niger.[10]

Before offering SILC, CRS staff conducted market research to determine which model to offer to Girma participants. When asked to express their preferences between conventional SILC and sharia-compliant SILC, residents in the Girma project coverage areas preferred the latter, leading the project to adopt the sharia-compliant approach. The team interviewed 55 village agents, existing Savings Groups (either entire groups, or representatives speaking on behalf of their groups), village leaders, women who were not SG members, and women in Rotating Savings and Credit Associations (ROSCAs, or *tontines*). Each individual interviewee or group was offered a hypothetical choice between conventional and sharia-compliant SILC, and each option was described in detail, *without* labeling it "conventional" or "sharia-compliant." Interviewees were permitted to reflect on the options, and then asked their preference. Of the 55 individual or group interviewees, 47 (85.5%) expressed preference for sharia-compliant SILC, including 16 of the 19 SGs or representatives, and 21 of the 23 village leaders interviewed. In addition, irrespective of their SILC model preference, the interviewees expressed strong appreciation for the idea of a sadaqa fund, to support the local community, establish a good reputation for the SILC group, and provide the SILC members spiritual recompense for their membership and activities. Based on this market research, Girma opted to offer sharia-compliant SILC, with a firm commitment to study the model's outcomes for project participants.

*Before offering SILC, CRS staff conducted market research to determine which model to offer to Girma participants.*

As of December 1, 2021, the Girma project had formed 1,483 sharia-compliant SILC groups in Niger,[11] of which 245 (16.5%), distributed across 11 *communes* (roughly equivalent to counties in the U.S. political system), were surveyed from December 2021 to January 2022 to document the policies and practices they employed.

8 Girma means dignity, prestige, and growth in Hausa, and represents CRS' vision of meeting individuals, households, communities, and government as equal partners in generating growth.

9 Government of Niger; ICRISAT (non-profit organization founded in 1972 that conducts agricultural research for development in Asia and sub-Saharan Africa); DEMI-E (NGO founded in 1998 and headquartered in Zinder); Education Development Center (EDC) (US-based, nonprofit organization); Community Development Assistance (ADC) (non-governmental organization founded in 2011 in Niger); Institute for Reproductive Health (IRH) at Georgetown University; Tufts University; and Viamo.

10 For details on the USAID Girma project, see "Girma: Long-Term Food Security, Improved Nutrition & Resilience in Niger," Our Work Overseas, Catholic Relief Services, https://www.crs.org/our-work-overseas/program-areas/agriculture-and-nutrition/food-security-resilience/niger.

11 As of September 30, 2022, the Girma project had formed an additional 959 Sharia-compliant SILC groups, for a total of 2,442 with 67,891 members.

## Core learning themes

The core learning themes for the survey and subsequent qualitative field research in Niger were to assess sharia-compliant SILC groups on five dimensions:

1. Whether groups adhere to recommended practices in 5.1S (*accept and use as-is*), if and how they adapt recommended practices to their needs (*accept but modify*) and what practices they reject.
2. Group members' interpretation and understanding of the recommended practices in 5.1S.
3. Groups' cycle profits.
4. Group members' satisfaction with their group's operations and outcomes.
5. Community members' and leaders' acceptance of the sharia-compliant SILC approach.

# 4. Methods and sampling

To address the core learning themes, the SILC HQ and country program (CP) teams conducted extensive field research using five methods – one quantitative survey and four qualitative techniques, including FGDs, direct observation of SILC meetings, key informant interviews (KII) with village leaders and imams, and KIIs and informal discussions with SILC private service providers and supervisors. In addition, the researchers reviewed the groups' financial data using their digital SAVIX records.

## Quantitative survey

In December 2021 and January 2022, a quantitative survey was administered to a representative sample of 245 sharia-compliant SILCs in Niger. The sample was purposively selected to reflect the diversity of geography and SILC PSPs working with sharia-compliant SILCs. The SILC supervisors were tasked to find and survey groups that were supported by SILC PSPs and had held at least one end-of-cycle share-out. At least two groups were to be surveyed per PSP, with the constraints that only one SILC group could be surveyed per village and at least two of the groups had to be from Fulani hamlets.

The survey sought to identify each group's policies and practices implemented. Of the 245 SILCs sampled, 87% were Hausa and 7.75% Fulani (with the rest mixed or unknown); 56% of the groups were in their third cycle at the time of the survey interview, 35% were in their second cycle, 7% were in their fourth, and 2% were in their first.

## Qualitative FGDs, KIIs and SILC meeting observations

The qualitative FGDs, KIIs and SILC meeting observations were conducted in February 2022, and the themes they addressed reflected learning from the quantitative survey. As such, the respondents – SILCs, village leaders, imams, and PSPs – were not selected to be representative of the breadth of sharia-compliant SILC experience in the Girma project, but rather to provide explanation and context for some of the rarer or more interesting survey findings.

Because variations in sharia-compliant SILC practice may hinge on issues of location, access to urban markets and traditional values, the qualitative field work was designed to probe some interesting findings from the quantitative survey. The

qualitative data collection consisted of a small, purposive sample of SILCs that operated in selected areas of extremes, including two groups in one *commune* (Bande) in which the rate of murabaha purchasing was high compared to the overall rate found in the survey (25% and 9% of groups, respectively), and one *commune* characterized by lower rates of uniform loan processing fee adoption among SILCs than other areas. Finally, the qualitative data collection sought insights both from some groups that had had members contribute voluntary additional amounts upon loan repayment, and others that had not had members do so.

During the qualitative field research, the field research team conducted 12 SILC group FGDs, distributed evenly across six *communes* (or, two FGDs per *commune*). Six of the FGDs followed direct observation of SILC meetings, while the other six were FGDs only, without meeting observation.

In addition, the field research team gained insights into group practices from interviews with one village chief and two imams (with their counselors), and discussions with PSPs and SILC supervisors.

## Review of group ledger books and SAVIX data

The quantitative survey and qualitative data collection findings were supplemented with two other data sources. First, the research team examined three groups' ledger books to understand how expensive sharia-compliant cash loans with processing fees are. Second, the team exported the Girma project's SAVIX records to calculate members' return on savings and sadaqa balances. The Girma SAVIX records were exported for analysis on February 5, 2022, and at that time contained membership and financial data on 1,477 groups.

The CRS research team facilitates an FGD with sharia-compliant SILC members in Hardo Korde village, Niger. [Photo by marc bavois for CRS]

# 5. Results

## Main fund

### Loan processing fees

Loan processing fees are widely used and contribute significantly to group profit.

In the FA Guide 5.1S, each group decides whether to impose a fixed loan processing fee (justified by the work the group has done to mobilize/manage loanable funds and analyze/recover loan requests), and how much the fee should be.

Of the groups surveyed in December 2021-January 2022, 92% (226) had issued cash loans, and 98% (221) of those that issued cash loans had policies in place to charge processing fees on the loans. Of the groups with cash loans and processing fees, 99% (218) charged the sharia-compliant fixed loan processing fee irrespective of the amount disbursed.

*Loan processing fees are widely used and contribute significantly to group profit.*

In light of the survey findings, in the qualitative field research the team sampled project areas with lower rates of take-up of processing fees, to probe reasons for resistance among some SILCs. Three of the 12 SILCs interviewed in the FGDs did not employ a loan processing fee because their SILC PSPs had not adequately explained the rationale for a processing fee. They had merely asked "do you want to have a loan processing fee?" A fourth group had initially implemented a loan processing fee, then dropped it. In their FGD, members of this group said the group had begun its first cycle with a processing fee, but when some members objected that it resembled interest too closely, the group dropped it. After posting low profit at the end of its cycle, the group consulted with an imam and restored the processing fee in its second cycle.

The nine groups in the FGDs that indicated they applied processing fees offered a variety of justifications for the practice, including "to prove the member has borrowed,"[12] to demonstrate members' commitment to repay, and to increase the amount of money in the Main Fund, pay for group equipment, and allow for group profit since no interest is paid on loans. In addition, several different terms were used to label the fees – an indication that different groups interpret the concept and importance of loan processing fees slightly differently. Terms heard by the field researchers included "proof [that one has borrowed]," "writing/paper fee," and "loan request fee" – as well as the local term that identifies the cloth ring used to support carrying loads on the head. We can therefore conclude that it is important that project staff listen to and work with SILC members to understand the locally appropriate term(s) for loan processing fees. Doing so ensures that all SILC trainers of trainers and PSPs communicate a clear and compelling message to sharia-compliant SILC groups about how loan processing fees highlight the work the group does to approve loans.

12 The exact meaning of this expression remains uncertain, despite the researchers' attempts to elicit explanations from the SILC groups whose members used the expression.

Recorded fixed loan processing fees among the sharia-compliant SILCs surveyed seldom exceeded the group's target savings amount, and more than half the groups set the fee at half the target or lower (Table 1).[13]

**Table 1. Loan processing fee compared to weekly target savings**

| RELATIONSHIP TO GROUPS' TARGET SAVINGS AMOUNT | PERCENT OF SILCs |
|---|---|
| > Target amount | 6% |
| = Target amount | 36% |
| = 50% of target amount | 31% |
| < 50% of target amount | 27% |
| **Total** | **100%** |

To find out how expensive cash loans with uniform processing fees in sharia-compliant SILC are, compared to interest-bearing loans in conventional SILC, while conducting the FGDs the research team examined the fixed loan processing fee records of three groups, to compare fee amounts to loan amounts.

In reviewing the ledger books, the research team divided each group's loans into *small, medium,* and *large* categories, based on each group's loan size range. The team then calculated the average relationship between the fixed loan processing fee and each loan size group. For the first group, the one-time fixed loan processing fees amounted to the equivalent of 1% of small loans and 0.5% of large loans; for the second, 7% of small loans, 3% of medium loans, and 1% of the group's largest loans; and for the third group, 5% of the smallest loans and 2% of the largest loans. These calculations show that that sharia-compliant loans are inexpensive, even for small loans, compared to conventional SILC loans, for which interest payments are typically 10% per month. Moreover, the groups observed had made no attempts to match the earning potential of conventional SILC (interest-bearing) loans.

## Voluntary additional amounts paid at loan repayment

Sixty-five percent of groups surveyed that had issued cash loans had recorded instances of borrowers who voluntarily supplemented their loan repayments with extra money to express appreciation for the opportunity to use the group's money to better their circumstances. In sharia-compliant SILC, borrowers are only obligated to repay the loan principal, but they may voluntarily decide to give an additional amount as a gift to the group with repayment. The 2017-2018 pilot study in Mauritania found that SILC members called this voluntary additional amount *balal* – and it is labeled as such in FA Guide 5.1S – while the respondents in the pre-project market research in Niger labeled it *goro*, a word commonly used to describe an in-kind gift given when returning a borrowed item to its owner.[14] *Goro* is the term used in the French FA Guide 5.1S (used for the Girma project).

13 The SILC Pro-Poor Strategy replaces strict weekly minimum savings amounts with *flexible* savings, in which groups set a *target* savings amount that serves as a motivating reference point to orient poorer members, while allowing them to save less when they cannot meet the target. It also discourages the practice of forced borrowing by highlighting the deleterious consequences for SILC members.

14 *Goro* is the Hausa word for cola nuts and refers to the tradition of offering cola nuts to someone for something with which they provided help. So, the transition from an in-kind contribution to a cash contribution uses the same word. The reason for making the gesture is the same, although the vehicle (cash vs. cola nuts) is different.

Sixty-five percent of groups that issued cash loans had experienced at least one instance of members making voluntary payments in addition to their loan repayments. If not all borrowers in these groups made additional payments, and if even those who did make additional payments did not do so upon repaying every loan they took, we can conclude that fewer than half of loans issued were repaid with additional amounts. Low rates of additional payments compared to the frequency of cash loans may be due to one or both of two reasons:

1. Lack of means or desire among borrowers to repay more than they had borrowed.
2. Lack of or inadequate reading and discussion of the relevant hadith with SILC members by agents, to explain and justify the practice of paying additional amounts as consistent with sharia.[15]

In the qualitative field research, seven of the 12 groups interviewed reported members giving additional amounts. Another two did not have any members do so. Members of one of these two groups said that the processing fee served the same purpose as an additional amount, while members of the other group said that the voluntary payments of additional amounts are acceptable when someone borrows a physical item, but not when that person borrows money. Members of another two groups accepted additional amounts paid as valid practices, saying they expected some additional amounts to be given in their current cycle, but had not received any yet.

*Sixty-five percent of groups that issued cash loans had experienced at least one instance of members making voluntary payments in addition to their loan repayments.*

The SILC FGD groups that reported expecting or receiving voluntary additional payments at loan repayment gave two reasons for the practice:

- To demonstrate satisfaction and gratitude for the loan, which helped members resolve issues or establish successful income generating activities (IGA); and
- To increase group profit.

SILC private service providers and supervisors observed over the course of the Girma project that borrowers who gave additional amounts at loan repayment mainly did so when their IGA succeeded, or they had resolved a significant problem – but borrowers' willingness to pay an additional amount ultimately depended on their generosity and was not predictable. No emerging *norms* establishing when additional payments *should* be made were evident, so it was clear that groups did not coerce borrowers to repay more than the loan principal.

Observations of group ledgers indicated that additional amounts paid were modest and, despite the amounts not being set constitutionally, the additional amounts paid by individuals were generally close in value to the group's loan processing fee. For instance, SILCs that charged loan processing fees of 50 naira (₦) saw typical additional payments of 50-100 ₦ for loans of 5,000 or 10,000 ₦, while groups that charged 100 ₦ in loan processing fees saw additional payments of 50-300 ₦ for loans of 4,000 to 30,000 ₦, and a group that charged 200 ₦ in loan processing fees saw borrowers pay 200 ₦ on loans of 2,000-50,000 ₦.

## Late loan penalties

In the survey, 14% (35) of groups had experienced delinquent loan repayments. Among these, 34% charged a new loan processing fee and 14% charged a fine – neither of which is compliant with sharia, which holds borrowers responsible for repaying only the loan

15 Members of eight of the groups interviewed during the field research claimed never to have heard the relevant hadith, while members of two had heard it, but only outside of the SILC context.

principal. Another 20% took no action, 17% extended the loan repayment due date, 6% issued a warning and 3% took the member's savings to repay the group.

In the FGDs, three of the 12 groups interviewed said they had extended the delinquent borrower's loan period with a new loan processing fee, one said they had issued a fine in the amount of the loan processing fee, and another that their policy was to impose a fine on a borrower after one week's delinquency, but that they had not yet had to apply their policy. When asked why they charged new loan processing fees or fines, the FGD respondents explained that the delinquent loans meant they lost opportunities to earn additional loan processing fees from new loans, because the previous loans had not been repaid. While this reasoning is economically sound, it does not reflect the spirit of Qard Hasan loans. To remain sharia compliant, groups should be discouraged from charging monetary penalties on delinquent loans, whether labeled as fines or presented as new processing fees.

All the groups interviewed in the FGDs had recovered all loans by the end-of-cycle share-out. Nevertheless, some had plans in place in case of outstanding loans at share-out, including pushing back the share-out date, applying a member's savings to the outstanding balance and excluding the member from the group in the subsequent cycle.

## Murabaha

*Murabaha is the practice of purchasing goods on behalf of one or more members using the main fund.*

Purchasing of goods (Murabaha) rather than giving cash loans was not common among the sharia-compliant SILCs surveyed. Just 9% of SILCs, concentrated in two *communes*, had purchased goods and distributed those goods in loans to members. Murabaha is the practice of purchasing goods on behalf of one or more members using the main fund. These transactions are recorded in a different ledger than for cash loans. Members repay the value of the good after a period, generally with a previously agreed mark-up. The mark-up covers the transaction costs and helps to generate group profit at share-out. The amount of the mark-up is determined by the group when the items are given to members.

Of those 9% of groups surveyed that had issued murabaha loans, 78% reported adding a mark-up to generate group profit.

Eight of the 12 groups in the FGDs were asked if they conducted group goods purchasing. Two said yes, and six said no. Of the six groups that said no, two had not heard of the murabaha practice and one said it was more interested in individual cash borrowing for IGAs than group goods purchasing. Another said it intended to conduct group goods purchasing in the future. Finally, the sixth group operates in Kwaya, a large town with a dynamic local market, which members can readily access individually without burdensome and costly transport.

Of the two FGD groups that had conducted group purchasing, one had bought cloth (*wrapper*[16]) and headscarves from a nearby town for all members and the second had bought pasta from a large market outside of the village. In both groups that had conducted group goods purchases, every member participated in the purchase, and all members purchased the same item, even though different members ordered different quantities in the group that bought pasta.

16 The *wrapper, lappa*, or *pagne* is a colorful garment widely worn in West Africa by both men and women.

The two groups that had conducted group goods purchases said that several members were responsible for conducting the purchasing. The group that bought cloth and head scarves collected cash contributions from the members to cover the transaction costs (transportation, etc.). In that instance, more money than needed was collected, and the extra was deposited back into the main fund. Then members repaid only the purchase price for the quantity of items they received. The group that bought pasta used cash from the main fund to cover the transaction costs and assigned mark-ups to members according to how much spaghetti each had ordered.

The main benefits of murabaha loans mentioned by the two SILC groups during the FGDs that had practiced it, were splitting transport costs to acquire necessities and increasing group cohesion. Securing bulk discounts for needed consumption items was not mentioned as a benefit.

The relatively small number of SILCs that reported conducting group goods purchases in Niger contrasted with the frequency of group goods purchases observed in the earlier sharia-compliant SILC pilot project in Mauritania and Sudan. In Mauritania, five of the seven sharia-compliant SILC groups interviewed in 2017 had conducted group goods purchases – either regularly (weekly purchases) or as-needed. All groups interviewed in Mauritania sent delegates to the market with cash and applied markups to cover travel expenses and generate profit. All but one of the groups reported funding group purchases from the Main Fund, while the remaining group funded the purchases using cash from the group's Social Fund. In Khartoum, Sudan, conventional SILCs that predated the sharia-compliant SILC approach rejected interest-bearing cash loans in favor of murabaha loans to earn group profits and secure bulk discounts at the market. In contrast, SILCs in Darfur established during the sharia-compliant SILC pilot project earned profits from group investments in renting out assets such as tents, mats, and cooking pots.

A member of the Haske sharia-compliant SILC group in Dogon Gao, Niger, makes a savings deposit. [Photo by marc bavois for CRS]

That group goods purchasing appeared relatively popular in Mauritania and Khartoum, Sudan, but uncommon and geographically concentrated in a few *communes* in Niger, indicates that while the practice is a valuable part of the methodology, it will be more useful in some contexts than others and might need to be explained and encouraged where there are no existing experiences to reference. SILC supervisors should study the environment in which SILC is being promoted to identify the circumstances under which murabaha might be most beneficial for members.

There are several contexts in which group purchasing could be especially helpful to members. These contexts include:

- Items that group members need or want are not available locally, or are very expensive in local markets, and the group could benefit from accessing these items more cheaply in distant markets.
- The community is remote and transport to significant markets is long and/or costly, so members could benefit from having representatives go to market and split transport costs with the rest of the group.
- Many members need identical items in specific amounts, so they could benefit from buying in bulk and getting a discount.

*The Niger Girma experience shows that sharia-compliant SILC does generate profit albeit at a lower rate than conventional SILC.*

SILC supervisors should take sufficient time to describe the options for covering transaction costs for murabaha loans (such as collecting cash from members directly or taking funds from the main fund); inquire of PSPs and SILC members whether any collective purchasing is already happening in the community, and how murabaha might align or contrast with that group purchasing; and help SILC members reflect on ways to include murabaha loans as a means to increase group income.

## Share-out and profit

The Niger Girma experience demonstrates that the sharia-compliant SILC approach generates profit for members.

For the end-of-cycle share-out, FA Guide 5.1S teaches sharia-compliant SILCs to return group members' savings to them, then to divide the cycle profit (cash beyond the savings, which comes from loan processing fees, any voluntary supplemental contributions on loan repayment, fines and other income) equally between members. This practice differs from the conventional SILC share-out, whereby profit is shared out proportionally according to how much money each member has saved in the group's Main Fund.

It is anticipated that sharia-compliant SILC profitability will be lower than for conventional SILC groups, since there are no interest payments and there is no expectation that the loan processing fees, voluntary supplemental contributions at loan repayment and other potential income will produce earnings equivalent to those available in conventional SILC (another large project in Niger, BRACED, promoted conventional SILC and found that groups generated an average of 14.5% profit[17]). It is hoped, however, that groups do generate some cycle profit to motivate continued participation by members. The Niger Girma experience shows that sharia-compliant SILC does generate profit albeit at a lower rate than conventional SILC.

In the quantitative survey, 99% of the 245 groups surveyed reported earning a cycle profit at their last share-out. Just 1% (3 groups) did not. Consistent with the SILC

17 Global SAVIX data estimates average SILC profit to be about 22%.

FA Guide 5.1S methodology, all groups surveyed with cycle profit shared it equally among their members.

Evaluation of the SAVIX records as of February 5, 2022, for 409 sharia-compliant SILCs that reported end-of-cycle share-out data found that groups' return on savings (ROS) for members ranged from losses to greater than 20%, with most groups earning between close to 0% and 10% (Table 2).

**Table 2. ROS for N=409 groups that reported share-out in SAVIX**

| ROS RANGE | NUMBER OF SILCs | PERCENT OF N=409 SILCs |
|---|---|---|
| Losses | 2* | 0% |
| Exactly 0% | 35 | 8.56% |
| (0%, 5%) | 197 | 48.17% |
| [5%, 10%) | 99 | 24.12% |
| [10%, 15%) | 41 | 10.02% |
| [15%, 20%) | 18 | 4.40% |
| 20% and greater | 17 | 4.16% |

*The two groups that posted negative ROS lost 7.5% and 20.2%, respectively.

All the sharia-compliant SILCs interviewed during the 12 FGDs had shared out their profit equally among all members at the end of the previous cycle. Individual member profit amounts ranged from 180 to 2,000 ₦,[18] and group profit levels ranged from 2.5% to 26% (the group that achieved 26% profit decided to dedicate that amount to water well repairs, in two tranches).[19]

The sources of profit mentioned by the groups interviewed were revenues from fines, voluntary additional payments made at loan repayment, loan processing fees, murabaha loans with mark-ups – and in one case, a monetary gift from a politician. In addition, two groups independently reported earning profit from the same group income-generating investment: buying an animal using cash from the main fund and entrusting its care and fattening to a member, who was financially responsible for the animal's upkeep. The groups then sold the animal before share-out and the net proceeds were split evenly between the group and the member who cared for the animal.

18 As of February 2022, 85% of Niger Girma sharia-compliant SILC groups operated in Naira, 14% operated in FCFA, and three groups operated in both currencies. To record group financial data in the SAVIX platform, all financial data need to be a single currency, so the financial records of groups operating in FCFA were converted to Naira prior to data entry. So, all SAVIX financial statements are *expressed* in Naira.

19 In contrast to conventional SILC, where group profit and member profit are the same percentage because members receive a share of profit proportional to their savings, in sharia-compliant SILC every member in a group receives the same amount of money from the group's profit irrespective of how much they saved, so each member receives a different percentage profit. Hence, sharia-compliant members' share-out profit earnings are expressed in currency, rather than in percentage.

All the groups interviewed in the FGDs expressed comfort with equal share-out, explaining that everyone is equal and contributed to the group's success, and that an equal division supports group cohesion. Most groups were either satisfied or very satisfied with the level of profit and emphasized the importance of the fact that the profit from their group's sharia-compliant operations was halal, or "clean," and permitted by Islam.

## Social fund

All the sharia-compliant SILC groups surveyed had established Social Funds, and all but two provided grants rather than zero-interest loans. This practice was consistent with the SILC FA Guide 5.1S, in which zero-interest loans – which are an option for Social Fund disbursements in conventional SILC because loans offered from the Main Fund charge interest – are not presented as an option for the Social Fund, since such loans can be obtained from the Main Fund in groups that permit zero-interest loans.

Just two sharia-compliant SILCs surveyed deviated from the norm of offering grants from the Social Fund: one provided zero-interest loans and the other gave out both zero-interest loans and grants.

## Sadaqa fund

*Almost all SILCs have sadaqa funds, and most of these have donated money from their funds to meet local charitable needs.*

Almost all SILCs have sadaqa funds, and most of these have donated money from their funds to meet local charitable needs. SILC FA guide 5.1S provides groups the option to operate a sadaqa fund, and because contributions should be confidential, groups are encouraged to provide some discretion or anonymity for contributors. Groups with sadaqa funds should discuss and make consensus decisions on fund usage. Sadaqa fund payouts cannot be given to members, and if groups have not used their sadaqa funds at all during the cycle, they are encouraged to do so at end-of-cycle share-out, to fulfill its spirit.

### Management

Sadaqa funds were found to be popular among the Niger sharia-compliant SILC groups. The survey found that 98% of groups operated sadaqa funds and almost all of those had made at least one disbursement – and of these, 41% had made multiple disbursements. Ninety-six percent of the groups made disbursements to support a mosque, while 33% directed payments to non-members or non-member households.

In the FGDs, all groups visited operated a sadaqa fund. When asked why they had them, members of all but one group mentioned attracting blessings now, and in the afterlife, while the members of one group mentioned helping the community, "We were told this is how it should be done. It's not mandatory, but it helps. The group can act at the community level." In the view of all members interviewed in the FGDs, their contributions to the group sadaqa fund did not replace their personal sadaqa practices outside of their group.

While sadaqa contributions are meant to be anonymous, the SILC groups observed did not strictly enforce this expectation. Most left the sadaqa bowl open, and those that covered the bowl did so to prevent the wind from blowing away the cash, not to preserve depositors' anonymity. Indeed, in some groups members were seen queuing up to deposit cash in the sadaqa fund bowl, and each could clearly see how much the member ahead of them had deposited. This practice demonstrates that

members of these groups were not bothered by the fact that their sadaqa donation amounts are visible and may be known.

## Contributions

Most of the SILCs interviewed in the FGDs reported that their members contributed "from time to time," with most group members contributing to the sadaqa fund at least once over the course of a cycle. Several of the SILC groups interviewed in FGDs said they had accepted sadaqa contributions from non-members.

A review of SILCs' ledger books showed that member contributions to the sadaqa fund varied in frequency – from one-quarter of all meetings in some groups to contributions at every meeting in others – and amount. Overall, sadaqa deposits were modest, ranging from the equivalent of 2% to 28% of groups' total social fund deposits. At the peak recorded value in the cycle (cumulative contributions minus any disbursements), 26% of the 1,577 groups whose SAVIX records were analyzed in February 2022 had recorded a balance of 0, 53% of groups had up to 1,000 ₦ in the sadaqa fund, 11% had 1,000-2,000 ₦ in the fund, and 10% had more than 2,000 ₦. Average net contributions per member were 0 in 26% of the groups, up to 100 ₦ in 67%, and above 100 ₦ in 7%.

The average net contributions per member and the peak recorded cycle values of sadaqa show that contributing to the sadaqa fund is not a significant burden on SILC members; but by pooling their contributions, groups accumulate appreciable amounts of money that they can deploy promptly as the need arises.

## Disbursements

Sadaqa fund outlays varied among the groups, with maximum outlays observed of 2,000 ₦ and 5,000 ₦. Reported uses for the larger charitable outlays included:

- Contributing to the upkeep of the local mosque by purchasing mats, water containers and electricity credits.
- Giving sadaqa cash directly to the mosque, in one case.
- Providing cash gifts to vulnerable community members, such as the elderly, blind and poor, or to Quranic students.
- Paying for repairs for the village water pump or well.
- Acquiring burial shrouds for community members who might die.

The Yassalam sharia-compliant SILC group in Kwaya, Niger. [Photo by marc bavois for CRS]

In one case, a group used its entire sadaqa fund to medically evacuate a resident of a neighboring village for a blood transfusion. The details of this event were compiled during the FGD conducted with the Yassalam SILC group and the research team's follow-up discussions with Girma project staff:

*The Yassalam group meets in the city of Kwaya and is in its second cycle. The group has set up a sadaqa fund, which it has already used to buy water containers and mats for the mosque and give alms to Quranic students. At one meeting, several members of the group, who are community health workers, reported that a resident of a neighboring village was being cared for at the Kwaya Integrated Health Center and had to be transferred urgently to Magaria for a blood transfusion. The group used the entire sadaqa fund available [5,000 ₦, or about USD12] to support her evacuation. The evacuation was carried out [for a total of 9,000 ₦, or about USD21.60], the patient survived, and her family came personally to thank the group for their gesture.*

## Community acceptance and member satisfaction

Members in sharia-compliant SILC groups accepted the methodology, and imams and other local leaders found it legitimate – as demonstrated by the fact that some imams' and their counsellors' wives and offspring were SILC members.

FA Guide 5.1S advises sharia-compliant SILCs to consult with religious leaders when deciding on group rules, especially when determining how to handle late loan repayments, since such matters can be sensitive. The SILCs interviewed in the FGDs said that they had consulted with imams when deciding rules such as types of loans, loan processing fees and operation of the sadaqa fund.

The KIIs with imams and other community leaders indicated that they understand the sharia-compliant SILC methodology and the local groups' operations, and consider the methodology legitimate. Two imams were interviewed with their counsellors present. When asked to compare the sharia-compliant SILC method to other SG models, both imams expressed approval of the lack of interest-bearing loans in sharia-compliant SILC. One said, "Since one can repay less money [due to no interest], one can do something else with that money.... The young people [in the village] have been able to develop plenty of income-generating activities." Regarding consultations, one imam said that the local groups had not consulted with him, while the other confirmed that the project had informed and consulted with him during SILC promotion and the groups had done so while writing their constitutions.

Both imams confirmed that their mosques had benefited from the local SILCs' sadaqa donations. One confirmed that a sharia-compliant SILC group had used the sadaqa money to buy mats for the mosque, and he said blessings for the group members. The other said that several groups brought him money to say prayers, and all nine local sharia-compliant SILC groups in his mosque's catchment area had donated money and mats to the mosque. He said he thinks that managing a sadaqa fund in SILC is a good idea.

*Member entry into and departure from sharia-compliant SILC groups is related to meeting convenience and the usefulness of the financial services SILC provides, not the religious aspects of sharia-compliant SILC.*

The research found that the hadiths designed to justify and encourage key practices had not been used as intended in Niger. Whereas during the sharia-compliant SILC pilot project in Darfur, Sudan, the hadiths had been read and discussed frequently (even after the training period), agents in Girma expressed reluctance to read them to groups, saying they felt uncomfortable in that position and feared misquoting the hadiths. It is worth noting that the hadiths, in particular the one concerning giving an additional amount beyond the principal repayment, had been validated by imams in the target area, both during the market research and during the assessment. Furthermore, when the researchers read the hadiths to the FGD participants, the participants easily understood and correctly interpreted them, and were able to explain how the hadiths' messages applied to sharia-compliant SILC practices, including giving additional amounts at loan repayment. This suggests that if the hadiths had been systematically read to and discussed with members, there might have been more instances of additional amounts being paid.

The FGD participants confirmed that they appreciate the methodology's alignment with sharia and that member entry into and departure from SILCs is related to the convenience of meeting venues and times, and the usefulness of the financial services provided by SILC. No SILC group member interviewed mentioned that member entry or departure was due to the religious aspects of sharia-compliant SILC.

During six of the FGDs, SILCs were asked to rank their preferences with respect to various aspects of sharia-compliant SILC, to understand which aspects of the methodology they most valued or found most useful. The Social Fund emerged as the most valued, given the highest ranking by four groups. The ready availability of credit without interest followed, ranking the highest for one group and the second highest for three groups. Savings, sadaqa, and lump sums at share-out occupied the middle rankings for the groups, while profit at share-out was ranked the lowest – perhaps a statement of members' values, or an acknowledgment that profit was not as high as the members had hoped. Ranking of profit relative to other elements of the sharia-compliant SILC methodology may change over time, as groups gain experience and earn more profit.

# 6. Conclusion

This report presents the findings from the first operational research conducted around sharia-compliant SILC at scale. Leveraging quantitative and qualitative methods, the evidence shows that sharia-compliant SILC methodology works as proposed and is appreciated by members and community leaders, but that thorough training of and engagement from project staff, trainers of trainers and PSPs is essential to groups' continued compliance with sharia and success in their operations.

The sharia-compliant SILC approach aimed to provide members with a full range of financial services, comparable to what members enjoy in conventional SILC, but in a way that is fully aligned with Islamic law. It succeeded on all fronts in its most recent implementation at scale in Niger. Sharia-compliant SILC groups issue cash loans to their members for any purpose and on flexible terms, with the added advantage of the murabaha purchasing mechanism in some areas. Even absent monthly interest payments on loans, group policies make it possible for groups to generate profit legitimately, with over 85% of groups posting cycle profits, albeit at more modest levels than in conventional SILC. The Social Fund continues to be a popular feature in its grant-only incarnation, supporting members in times of need. Not only is the sharia-compliant SILC methodology fully aligned with sharia, but it has been welcomed by religious authorities and community leaders, with the sadaqa fund innovation widely appreciated.

*Further research should study how sharia-compliant SILC group profits evolve over time, and whether groups remain satisfied or change their practices.*

Like conventional SILC, sharia-compliant SILC generates a profit at the end of the cycle. While the methodology prohibits charging interest on loans, as well as fines or fees on delinquent loan repayments, there are multiple potential sharia-compliant income streams for groups and members. These income streams include charging fixed loan processing fees, encouraging (but not coercing) supplemental contributions at loan repayment, group purchasing with mark-ups (murabaha) and group investments. Furthermore, by accumulating savings and issuing cash loans, sharia-compliant SILC provides the same opportunities to members to access useful lump sums of money to start and grow their own IGAs, as conventional SILC does.

Groups' profit in Niger, however, was lower than in conventional SILC, and the SILCs in the FGD that were asked to rank their preferences for sharia-compliant SILC components listed profit as less useful or important than other components of the model. This low ranking may be due to the members' positive experiences with the components they ranked more highly than profit, or it may be due to disappointment in the low levels of profit their groups earned. Future research, with a larger sample of groups, should address the following outstanding questions:

- How sharia-compliant SILC group profits evolve over time and cycles – and if most or all groups continue to be satisfied with modest profit, or if dissatisfaction leads significant numbers of groups either to (1) optimize their use of the current sharia-compliant SILC services to generate greater legitimate profit or (2) revert to non-compliant practices to engineer greater profit.
- Whether borrowers in sharia-compliant SILC earn more money over time from the investments they make with their loan money, and if so, whether higher earnings induce more borrowers than observed in this study to express their appreciation to the group by giving additional amounts at loan repayment.

Beyond profit and access to zero-interest cash loans and murabaha loans, both SILC members and imams in Niger appreciated the group sadaqa fund. In Niger, sharia-compliant SILC groups bolstered their local reputations and members derived spiritual utility by donating money from the sadaqa fund to meet their communities' needs. The imams interviewed appreciated the donations made to their mosques in the form of cash and mats.

Nevertheless, while sharia-compliant SILC has yielded positive results at scale in Niger, some cautions are in order for future implementation of the model. First, under no circumstances should the same trainers of trainers and PSPs implement both the conventional and sharia-compliant SILC models. The risks of training on multiple methodologies include the following:

- Training staff and agents on models with significant differences is lengthier and more difficult than training them on just one model, and the fidelity of each approach might be compromised in the process.
- The agents might personally favor one model over another and emphasize it, urging SILC members to adopt practices that may be inconsistent with the communities' values.
- Agents and groups might be confused between the approaches, or create hybrids, leading groups to adopt prohibited practices while believing that those practices comply with Islamic law.

To determine which approach, conventional or sharia-compliant, to deploy in majority-Muslim areas, it is important to conduct market research to understand the


A Girma field supervisor assesses the procedures of a sharia-compliant SILC group in Niger.
[Photo by marc bavois for CRS]

local context. Indeed, market research should be undertaken even in areas where previous SG projects used the conventional SILC methodology. Market research consists of establishing the current financial practices of the project's target population, especially the use of informal mechanisms, and eliciting the project participants' preference between conventional SILC and sharia-compliant SILC. In addition, market research provides the opportunity to learn terms and customs that the project can use to render the sharia-compliant SILC concepts more relatable.

Second, if a project selects the sharia-compliant model for implementation, the project staff must train participants on the sharia-compliant SILC model as written in the guide, and not make changes lest the SILCs inadvertently violate sharia. SILC trainers of trainers and PSPs should explain clearly how each sharia-compliant SILC practice should operate and, if deviations violate sharia, why they do so. Failure to provide such clarity may cause groups to violate sharia inadvertently, as occurred in some groups during the 2017-18 pilot project in Mauritania. Specifically, the post-project evaluation found that, due to inadequate training, several SILCs in Mauritania had implemented processing fees that were *proportional* to the loan amount – effectively, they were charging "disguised interest" on loans at disbursement. In response, CRS revised the SILC FA Guide to emphasize that proportional fees are not sharia compliant. The success of the uniform loan processing fees in Niger reflects this change.

Third, fines and additional processing fees imposed on borrowers whose loan repayments are delinquent violate sharia. Monetary penalties may dissuade loan delinquency, and it is understandable that groups want to recoup some money via fines given the lost opportunity to issue new loans with new processing fees. Nevertheless, the imposition of fines violates the spirit of a Qard Hasan loan. Because the FGDs revealed that some sharia-compliant SILCs in Girma imposed fines on delinquent loans, CRS has revised the guide to prohibit any monetary penalty for delinquent loans, however conceived or labeled.

The sharia-compliant SILC methodology as described in CRS' FA Guide is fully compliant with sharia. If SILC groups follow the guidance as written without introducing modifications, their practices will align with sharia. If, however, a group does not follow the guidance as written, it risks violating sharia by adopting a forbidden (*haram*) practice.

SILC groups ultimately set their own rules and make their own operational decisions. SILC agents can recommend sharia-compliant practices, explain why the recommended practices comply with sharia, and advise groups to adopt them without deviation, but they cannot force groups to do so. Projects should never punish or exclude groups that deviate from sharia-compliant practices.

When groups' practices violate sharia, however, agents can do the following to help the groups return to compliance:

- Provide correct information about the practices.
- Advise groups to comply with sharia.
- Answer questions fully and accurately.
- Refer groups to their local imam to resolve any questions about religious interpretation of changes or innovations not included in the sharia-compliant SILC guidance.

Because the adoption of even a single non-compliant practice places a group in complete non-compliance with sharia, trainings of new groups and refresher trainings of existing sharia-compliant SILCs must budget sufficient time to explain and justify

the sharia-compliance of the methodology's recommended or encouraged practices and discourage those innovations that violate sharia. Early productive engagement with imams and other community leaders, as well as reading and discussing the relevant hadiths with SILC members, can help SILC trainers and agents explain to members why practices such as uniform, fixed loan processing fees and additional amounts given at loan repayment are sharia compliant, and why loan processing fees proportional to loan size, and fines imposed on delinquent loans, are not.

The sharia-compliant SILC approach is viable because it is both useful and profitable for members and acceptable to religious authorities. In the USAID Niger Girma project, most sharia-compliant SILCs surveyed or interviewed in FGDs posted end-of-cycle profits using combinations of modest fixed loan processing fees, murabaha loans for group purchases repaid with a markup, and group IGA investments. 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. They considered the sharia-compliant practices encouraged by FA Guide 5.1S to be legitimate.



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