



# CRISIS-ADAPTED VSLA

# Sharia Compliance

This is a companion document to  
[A Guide to CARE's Crisis-Adapted VSLA.](#)

Please use this guidance when working with  
communities that adhere to Sharia law.



# Sharia Law and Financial Interest

Sharia law, rooted in Islamic principles, governs not only religious and social practices but also financial transactions: it emphasizes fairness, transparency, and ethical behavior. A core tenet of Sharia-compliant finance, and the tenet most pertinent to VSLA and Crisis-Adapted VSLA, is the prohibition of interest (*riba*), which is considered exploitative and unjust.

## IMPLICATIONS FOR CA-VSLA

Where Sharia law is in effect, CARE is careful to assure participants and their communities that the methodology scrupulously complies with religious principles: no one charges or pays interest in any transaction. How does this affect financial outcomes, especially in crisis-affected environments?

The traditional VSLA framework relies on the accumulation of fines and especially of interest on loans taken by members. This accumulated money means more members can take loans at one time, and it means a greater amount of money is distributed among the group during share-out at the end of the savings cycle. Members experience a rewarding ‘aha’ moment when they see and receive the growth of their savings. This underscores

the tangible benefits of VSLA membership, and reinforces the group’s cohesion.

In crisis-affected settings, group members have limited saving capacity. Their modest savings fund may be insufficient to meet the borrowing needs of more than one member at a time. The group accumulates less interest on repaid loans, and the cash box grows slowly. The ‘aha’ moment at share-out is far less dramatic and rewarding.

But in crisis-affected settings where Sharia law is in effect—where charging interest is prohibited—members receive at share-out only the same, limited amount they managed to save, with zero growth and zero financial reward. Members may question the value of participating in Crisis-Adapted VSLA. In some cases, their dissatisfaction results in the disintegration of the group.

## SHARIA COMPLIANCE AND ELEMENT #4 BUILDING ECONOMIC RESILIENCE

Element #4 Building Economic Resilience involves providing seed grants to groups that have completed their first savings cycle, and it presents an especially important opportunity to Muslim groups to build their accumulated funds and gain financial benefits from participation. Administering the seed grants can be done in two ways:

- 1. Cash Injection to Cash Box:** Seed grants can be injected directly into the group's cash box. The enlarged savings fund means more members can borrow to start or grow their individual IGAs. Groups that charge interest see a substantial 'snowball' effect from the cash injection, but Sharia-observant groups do not: their savings fund is larger, but it still does not grow.
- 2. Seed Grants for Group Investment Activities:** Cash provided as a seed grant for a group business venture leverages members' existing

business capacity and expertise. In Sharia-compliant contexts, group investments enable the growth of savings, thereby enhancing individual and group financial resilience. The group investment activity also fosters social cohesion and solidarity among members.

The seed grant for group investment is therefore the preferred method, and is Sharia compliant by design.

Note that the Self-Financed Group Investment Activity, described briefly in the [Crisis-Adapted VSLA guide's](#) section on Element #4 Building Economic Resilience, *is* Sharia compliant and can be considered if seed grants are not available. However, members of a Crisis-Adapted VSLA that does not charge interest are very unlikely to have enough capital to invest in this way.

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## SHARIA LAW OFFERS TWO RELEVANT FINANCIAL MODELS

Sharia law offers two models that CARE can use to guide Crisis-Adapted VSLAs' group investment activities:

1

***Musharaka* is a risk-sharing partnership:** members contribute capital and share profits and losses according to their investment ratios.

2

***Mudaraba* is a profit-sharing arrangement:** one party provides the capital while the other offers expertise and management. Profits are shared according to a pre-agreed calculation, and losses are borne by the capital provider.

Let us look more closely at how the Crisis-Adapted VSLA group investment activity is compliant with both these models while promoting sustainable economic growth for members.

**MUSHARAKA**  
A Risk-Sharing Partnership

**MUDARABA**  
A Profit-Sharing Partnership

The Musharaka model says:	How CA-VSLA complies:	The Mudaraba model says:	How CA-VSLA complies:
<b>Partnership:</b>			
All partners contribute capital to a joint investment and share ownership in the venture.	All CA-VSLA members pool their resources to create and invest in a group investment activity. Each member holds a stake in the business, reflecting the shared ownership aspect of <i>Musharaka</i> .	One party (the capital provider or <i>rab-ul-mal</i> ) contributes the capital, while the other party (the <i>mudarib</i> ) offers expertise and management of the investment.	CA-VSLA members collectively contribute to the capital pool, and those with business skills and expertise manage the investment. Roles are clearly defined between capital provision and management.
<b>Profit-and-Loss Sharing:</b>			
A fundamental principle of <i>Musharaka</i> is that profits and losses are shared among partners according to pre-agreed ratios.	The CA-VSLA group investment activity ensures that profits generated from the group's business are distributed among members based on their contributions or agreed terms. Losses are likewise shared, promoting fairness and transparency.	<p><i>Mudaraba</i> requires that profits be shared between the capital provider and the manager according to a pre-agreed ratio.</p> <p>In <i>Mudaraba</i>, any losses incurred are borne entirely by the capital provider unless the loss is due to the <i>mudarib's</i> negligence or breach of contract.</p>	<p>The CA-VSLA group investment activity complies by ensuring that profits generated from the group's business are distributed among members according to the agreed-upon ratios that reflect their roles and contributions, whether as capital providers or managers.</p> <p>The CA-VSLA group investment activity respects this principle: it ensures that any loss is absorbed by the members contributing capital unless the loss arises from mismanagement or negligence by the members managing the business.</p>
<b>Risk-Sharing:</b>			
<i>Musharaka</i> emphasizes risk-sharing among partners, ensuring that all parties are equally invested in the success of the venture.	The CA-VSLA group investment activity aligns with this by requiring all to equally share in the risks associated with the business, fostering a collaborative approach to managing challenges.		

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The Musharaka model says:	How CA-VSLA complies:	The Mudaraba model says:	How CA-VSLA complies:
<b>No Fixed Returns or Interest:</b>			
In compliance with Islamic finance principles, <i>Musharaka</i> does not allow for fixed returns or interest.	The CA-VSLA group investment activity ensures that returns are based solely on the actual performance of the business, with no guaranteed profits or interest payments, making it fully Sharia compliant.	In accordance with Islamic finance principles, <i>Mudaraba</i> prohibits fixed returns or interest.	The CA-VSLA group investment activity ensures that returns are based solely on the actual profits of the business, with no guaranteed or fixed payments, thus maintaining Sharia compliance.
<b>Decisions, Roles, Responsibilities:</b>			
<i>Musharaka</i> requires joint decision-making and shared management responsibilities among partners.	In the CA-VSLA group investment activity, all members participate in key business decisions, ensuring that the management and direction of the investment are collective, which aligns with the <i>Musharaka</i> model.	<i>Mudaraba</i> requires a clear definition of roles and responsibilities between the capital providers and the business managers.	The CA-VSLA group investment activity adheres by clearly delineating the roles within the group—those who contribute capital and those who manage the investment—ensuring that each party understands its duties and responsibilities.
<b>Transparency and Trust:</b>			
		A <i>Mudaraba</i> arrangement relies heavily on mutual trust and transparency between the capital provider and the manager.	The CA-VSLA group investment activity promotes transparency via regular reporting, clear communication channels, and active participation from all members, fostering the trust-based relationship essential for <i>Mudaraba</i> compliance.

## SENSITIVE AND FACT-BASED COMMUNICATION ABOUT SHARIA COMPLIANCE

To ensure that Crisis-Adapted VSLA members, their families, and their communities understand that Crisis-Adapted VSLA and its group investment activity are Sharia compliant, CARE can take these steps (see also the [CA-VSLA Group Investment Activity SOP](#)):

### a. Sharia Compliance Training:

- Provide specific training sessions to the Crisis-Adapted VSLA groups on how the group investment model aligns with Sharia principles, using real-life examples and case studies.
- Involve local religious leaders and scholars from the beginning. Their endorsement can provide credibility and reassurance to group members.

### b. Clear Communication and Transparency

- Develop easy-to-understand brochures, flyers, and other materials that explain the Sharia-compliant aspects of the group investment model. Use local languages and provide culturally relevant examples.
- Hold open forums where group members can ask questions and express concerns. Addressing these openly and honestly can help build trust and understanding.

### c. Documentation and Agreements

- Ensure that all agreements and contracts related to the group investment activity are written in clear, simple language and explicitly state how they comply with Sharia principles.

### d. Ongoing Support and Monitoring

- Conduct regular check-ins to monitor the groups' progress and address any ongoing concerns about Sharia compliance. (See [Field Visit and Progress Report](#) tool.)
- Implement feedback mechanisms, in which group members can anonymously share their thoughts and concerns, and CBTs and Field Supervisors can promptly address them.

### e. Practical Demonstrations

- Share success stories and testimonials from other groups, even in other regions or countries, where the Sharia-compliant group investment activities have been successfully implemented.

### f. Inclusive Decision-Making

- Ensure that the decision to undertake a group investment activity is made collectively, with input from all members. This fosters a sense of ownership and agreement.
- Use consensus-building techniques to ensure that all group members are comfortable and agree with the adoption of the Sharia-compliant model.