Journal DOI: 10.36713/epra1013|SJIF Impact Factor (2021): 7.473 ISSN: 2347-4378
EPRA International Journal of Economics, Business and Management Studies (EBMS)
Volume: 9 | Issue: 4| April 2022 -Peer-reviewed Journal

THE EFFECTS OF ISLAMIC FINANCE PRACTICES ON SOCIAL DEVELOPMENT IN MOGADISHU SOMALIA

Abdiwahid Ahmed Guled
Master of Business Administration in Finance (MBA),Graduate School,
University of Somalia (UNISO),Mogadishu - Somalia

Article DOI: https://doi.org/10.36713/epra9888
DOI No: 10.36713/epra9888

ABSTRACT

This study described the effects of Islamic Finance practices/modes on social development, the objective of this study is to investigate the effects of Islamic finance practices on social development, to examine the effects the Islamic modes play in the reduction of poverty in Mogadishu Somalia, and to describe the effects of Islamic finance modes play in increasing jobs in Mogadishu Somalia, data was collected from 60 clients of Dahabshil Bank and Salaama Bank Mogadishu – Somalia.

For data analysis, researchers managed correlation research design to test the effects of Islamic finance practices on social development by using SPSS software, also descriptive analysis such as frequency and percentage was used to analyze the characteristics of respondents. As a result of the analysis, the study revealed that all the dimensions of – Murabaha have a positive correlation with organizational performance.

In conclusion, the result indicated that there are strong positive effects of Islamic finance practices and social development.

In Recommendations, the researcher suggested that for future research a proportionate stratified random sample be used to compare several public sector institutions using a larger sample and needed to further investigate the potential relationships and effects of these variables and other extraneous variables, such as role Murabaha and mud araba have on poverty reduction and job creation.

KEYWORDS: ***Islamic Finance, Social Development; Poverty Reduction, Job Creation***

2.1. INTRODUCTION

The goal to eliminate Riba (usury) from the Islamic people group spawned the concept of Islamic banking and money. Riba is forbidden in the Quran. Despite differing viewpoints on the concept of riba in the pre-Islamic period and now, Islamic experts have been working since the mid-1950s to develop and implement banking without riba (sans usury). The first Islamic organizations that provided unrestricted Islamic financial services appeared in the 1960s when Islamic banks began to appear in countries with large Muslim populations (Komijani & Taghizadeh-Hesary, 2019).

Islamic finance has been widely recognized as a booming business globally during the previous three decades. Several Islamic financial institutions are working on the concept of attracting customers and financial facilitators to the Islamic financial market. They promote the banking business by encouraging best-in-class global standards that affirm Islamic law (Shariah) compliance and transparency. Since the beginning of the twenty-first century, the Islamic financial sector's expansion and improvements have elicited positive and sufficient feedback. Islamic banking and finance have grown in importance in Arab and Islamic countries, as well as in other countries, over the last three decades. Following that, Islamic finance refers to a banking arrangement that complies with Islamic law, also known as "Shari'ah" law, which has as its basic standards the sharing of risk and benefit between parties, the confirmation of decency, and transparency for all partners, and the limitation of assumption. Islamic finance is one of the most rapidly changing concepts in the world economy. The acquisition of Islamic money has gained increasing attention and inspiration around the world. The fact is not only the religion that is fascinating the people towards Islamic finance but essentially the services and the products provided by the Islamic finance that are the main reason which attracts the consumers towards it (Awan & Azhar, 2014). The American Research Journal of Humanities and Social Science (ARJHSS)R) 2020 ARJHSS Journal www.arjhss.com Page | 30 Islamic finance goods and services have tremendous promise around the world, notably within the American Research Journal of Humanities and Social Science (ARJHSS)R) the business world The profit-sharing concept is the sole principle that can replace interest as a component of the financial system's functions (Rustam, Bibi, Zaman, Rustam, & Zahid-ul-Haq, 2011). (Ullah and colleagues, 2020)

Islamic finance can be defined as financial activities that; first, based on shariah principles in all of its activities through its role as a financial intermediary between savers and investors; second, provides banking services within the framework of legitimate contracts; and finally, achieves a balance between economic and social return. The origin of Islamic finance dates back to the beginning of Islam 1,400 years ago. Historical books written during the early years of Islam indicated that during the first century of Islam some forms of banking activities existed that were similar to modern banking transactions. (Alharbi, 2015)

In Latin America and the Caribbean, poverty is most severe among children and adolescents, women, indigenous peoples, Afrodescendants and people living in rural areas. The region faces a difficult task in lowering its high levels of inequality, which are unjust and wasteful, destroy the social fabric, and obstruct progress. A culture of privilege, which also naturalizes social hierarchies, highly unequal power, and severely unequal access to opportunities, is the source of the perpetuator of this disparity. The area and the world will only progress if all people's rights, as well as their social and labor inclusion, are safeguarded. In this environment, it's critical to think about how to come up with a comprehensive solution to the aims of sustainable development, which are centered on the social dimension. The Latin American and Caribbean Regional Conference on Social Development established the concept of inclusive social development to emphasize the importance of social inclusion and the reduction of inequalities in understanding social development and achieving the social dimension of the 2030 Agenda from a regional perspective. (Latin American and Caribbean Economic Commission, 2019).

In response to these challenges, Sudan’s zero hunger strategic review (covering the period 2017–2030) outlines interventions to achieve Sustainable Development Goal 2, with analysis identifying gaps and national priorities. The review suggests the development of stronger partnerships to enhance national capacities to end malnutrition, achieve sustainable food systems, promote peace, respond effectively to emergencies and promote self-reliance of those affected by hunger. The review highlights opportunities for WFP to leverage its comparative advantage in strengthening the capacity of national stakeholders to deliver evidence-based interventions that will save lives and enhance development. (WFP, 2019).

Locally, the poverty analysis relied heavily on the recent Somali High Frequency Surveys, conducted in partnership with World Bank and our government statistics function. The need for a robust poverty analysis, based on sound data, is a key requirement for iPRSP compliance and we are confident NDP-9 offers deep insights. The results of the extensive consultations and poverty analysis led NDP-9 to establish three national priorities. These three, Inclusive and Accountable Politics; Improved Security and the Rule of Law; and Improved Economic Development, were found to be the pre-requisites to poverty reduction and government’s ability to capacitate itself to provide Social Development, and other government services (Plan, 2020).

Islamic banking is playing important role in the development of Islamic finance industry and has grown rapidly in Somalia recently. Islamic finance has potential solution to cover poverty reduction and promises to socio-economic justice in addition to reduction unemployment in Somalia. (Mohamed & Ahmed, 2015).

3.1. LITERATURE REVENUE

3.1.0. Introduction

This chapter presents different literatures related to the effect of Islamic finance practices on social development. The literature will specifically focus on the effect of murabaha on poverty reduction and job creation. These literatures have been retrieved from various books, journals, articles and studies related to the same problem under investigation.

3.1.1 Theoretical framework

This paper examines these divergent characteristics through the lens of the existing literature regarding legal origins, financial development, and Islamic banking. These three categories of economic development research reveal the potential effect of Islamic banking on the communities and countries in which it has taken root. I discuss each of these components of the literature in turn, as well as the potential limitations of the literature. (Ahmad, 2020).

After a long journey of searching earlier studies on the topic which were important to reach the objective of this study, we found some studies concerning the topic. According to, Khadijah, Manan, Hakimi, & Mohd, (2015). Examined paper entitled "Risk Management of Islamic Microfinance (IMF) Product by Financial Institutions in Malaysia" The idea behind the study was to obtain a clear picture of how the bank managed risk, especially credit risk, and examine the real-situation. Findings of the study indicated that the institutions had taken the necessary steps in managing the risks

HGB, (2017). Conducted a paper entitled "Impact of Islamic Modes of Finance on Economic Growth through Financial Stability." This study aims to investigate the relation between Islamic banks performance and economic growth. It attempts to answer the question whether Islamic banks are a perquisite for economic development or whether their financial stability a consequence of it. The study found that the regression tests shows significant relation between modes of finance and GDP R=0.79, there is negative causal relation between Z score and GDP.

3.1.2 Poverty

Poverty is one of the greatest problems affecting developing countries. Socio-economic imbalances, created by both natural and artificial resource scarcity, restrict impoverished people's access to economic opportunities, limiting their purchasing power and empowerment. Environmental degradation is thus both a cause and effect of resource scarcity, as the poor are forced to seek increasingly environmentally and economically unsustainable methods of income generation, further marginalizing them. Socio-economic imbalance and resource scarcity, characterized by low competitiveness, high unemployment rates, economic stagnation, and the inappropriate use of natural resources, are two of the greatest causes of poverty. Economic development and creating job opportunities are the aim of poverty alleviation programs. Sustainable development is possible if MFIs, non-governmental organizations (NGOs), and governments collaborate to find the best strategies to mitigate the negative effects of clients' businesses on the environment. Empirical studies on the connection between microfinance and environmental awareness may prove meaningful, particularly for decision-makers. (Effendi, 2017).

Microfinance can be defined as a method through which financial services are offered to those who cannot afford banking services. The microfinance field is quite young as it started in the 1970s in Latin America and South Asia where millions of poor people were granted small loans without conditions such as build up assets, collateral or buy insurance. Therefore, microfinance is on the idea of increasing the accessibility of credit to the poor who cannot afford bank credit services. In other words, microfinance focuses on maximizing social benefits unlike banking which focuses on making profits (Mirghani et al., 2011). Therefore, microfinance is one of the most effective and practical method of alleviating poverty in any society. (Aldosari, 2016).

Relation between Ijara, Murabaha modes and GDP. Also, the test shows significant negative relationship between modes of finance except Mud araba and Z Score R=0.93. However, there is insignificant relationship between Z-score and Murabaha, Mud araba. Two models are developed according to regression tests. and Also, the study suggested; first, Banks supervisors and decision makers at Islamic banks should encourage Istisna mode of finance. Second, Banks supervisors and decision makers at Islamic banks should search hard to discover appropriate financial tool in Islamic banks which can maximize financial strength and GDP in national economy at the same time. Third, Banks supervisors and decision makers at Islamic banks should decline amount of lending by Murabaha modes of finance. Fourth, Banks supervisors and decision makers at Islamic banks should decline amount of lending by Ijara modes of finance. And finally, Future studies should be made in the relation between Islamic modes of finance to confirm the results of this study.

Johnson, (2013). Conducted Paper titled "The Role of Islamic Banking in Economic Growth." This study seeks to add to the literature by empirically analyzing the economic growth determinative power of Islamic banks. Confirming past research, Muslim prevalence in a population is found to be the most significant determinant of the diffusion of Islamic banks. The study results show that Islamic banks are not significantly correlated with economic growth. Most notably, including the Islamic banking instrument affects the strength of beta-convergence. Basic Solovian specifications show that convergence occurs; countries with higher initial GDP per capita grow more slowly. After accounting for the intensity of Islamic banking, this effect becomes much less statistically significant, suggesting that some of the effect of convergence may operate through the propensity to adopt Islamic banking. Empirical analysis disaffirms the hypothesis that Islamic banks minimize the explanatory power of legal origin on economic growth due to their independent implementation of Shariah law; the results show that accounting for Islamic banks has no effect on the determinative power of legal origin. Finally, the correlation of Islamic banking and financial deepening is largely dependent on legal origin, resulting in negative effects for countries with British legal origin and positive for those with French legal origin.

3.1.3 Job Creation

Job creation is important to economic well-being and has become an urgent national priority following the recent financial crisis. Not all jobs are counted. The number of official jobs includes payroll offices and multiple employers, but not self-employed entrepreneurs and unpaid employees of start-ups [Bowler & Morisi, (2006) p.29]. .. Eliminating this unpaid entrepreneurship generally makes it difficult to develop policies to expand productive economic activity and regain the momentum of the recession. Therefore, this paper attempts to estimate the number of entrepreneurial jobs. To achieve this goal, first create a definition of entrepreneurial activity rather than (paid) employment. Second, it documents that entrepreneurship is also job creation. Third, the scale of enterprise and employment job creation by start-ups using entrepreneur dynamics panel surveys (PSED), Kaufman corporate surveys (KFS), employer surveys, and other selected government databases. (Creation, n.d.).

3.1.4 Murabaha

Hafas et al. [10] used co-integration test and vector error model (VECM) to study the dynamic interaction between Islamic banking and Malaysia's economic development. Their research results show that in the long run, Islamic bank financing is significantly positively correlated with Malaysia's economic development and capital accumulation. Abdul Adeel studied the relationship between Islamic banking and economic development. Their research results generally show that in the long run, Islamic bank financing is significantly positively correlated with Pakistan's economic development and capital accumulation. Ali [11] also believes that even for Islamic financing credit types, such as Murabaha and Ijara transactions, these transactions are secured by the right to use or tangible assets, and Islamic banks are required to understand the purpose and use of the client's finances. These models also require banks to have asset ownership, although the term is shorter in Murabaha case, and longer in the case of Ijara Finance. This increases (or ensures) the possibility that funds will be used for prescribed purposes. Therefore, it maintains the credit related to actual economic activities during each transaction and the entire contract period. (HGB, 2017).

Murabaha is a purchase agreement in which the seller first determines the price of the item to be sold, and then sells it at a certain profit agreed with the buyer. The bank will buy the assets for which the customer needs a loan, and then sell the same assets to the customer at a higher price (profit margin) (Petrusheva and Akiti, 2018). During the execution process, the Murabaha contract can be fulfilled in two ways, namely Murabaha with orders and Murabaha without orders. In the implementation of Murabaha with orders, the financial company acts as the seller (ba`i) to purchase the goods after the order with the consumer as the buyer (musytari). By implementing Murabaha with binding orders, consumers (musytari) who are buyers cannot cancel orders (Akerta et al., 2019). Regarding the support for the realization of the principles of Shariah, the active role of SSB and the training of employees in Islamic principles (Mediawati & Agustami, 2016, (Khotijah, 2020).

In this regard, Gundogdu (2009) introduced the 2Step Murabaha concept to mobilize resources in the context of international trade as an alternative to Mudaraba and Sukuk and the commodity Murabaha, which do not comply with Islamic law. As Gundogdu (2009) explains, one of the most used contracts in Islamic finance is Murabaha. This article proposes to introduce 2Step Murabaha to permanently replace the Murabaha product and become a good substitute for Sukuk. Under the Murabaha Agreement between the bank and the importer, the Islamic Bank can use the surplus funds to refinance the letter of credit. Suppose an importer is in the Gambia and needs to open a letter of credit to import yarn from Egypt according to the requirements of the Egyptian exporter. After receiving a financing request from the importer, the local Gambian bank can mobilize resources through international channels. Islamic Bank. The International Islamic Bank will buy the thread and sell it to the local Bank of Gambia and pay the profit margin in a different way. The Bank of the Gambia will sell it to the importer. In contrast to the commodity Murabaha, in the plan, Islamic banks manage their liquidity by supporting trade, thus contributing to the economic development of less developed countries. As mentioned above, the purpose of this article is to show how to mobilize resources for SMEs, especially SMEs in less developed countries.2 Compared to the US $ 1.43 trillion level in 2004, this is a significant increase (about three times). In the same period, world trade only increased about double ". 110 Asia Pacific Journal of Management Accounting, Volume 13, Issue 1, Murabaha direct sale transformed into the 2Step Murabaha plan. The structure of 2Step Murabaha has been explained by (Gundogdu, 2018).

A kind of "cost-plus" transaction that markets banks buy assets sell it to customers before they are

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EPRA International Journal of Economics, Business and Management Studies (EBMS)
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paid for installation. This installation is often used to allow general banking to be requested at mortgages when buying a property. Making the most preferred financing method for many Islamic banks for the simplicity of the model. Murabaha did not directly affect the reduction of poverty, but provides good tools for efficient deferred delivery, providing businessmen, providing their choice of assets and banking benefits, provides efforts and risks for that tool. Murabaha has little impact on the reduction of unemployment. There is no clear investigation about the impact of Murabaha against inflation. (2011 Elghattis, 2011).

3.1.5 Mudarabah

However, from a practical point of view, compared to debt financing instruments, Mudaraba (profit sharing) contracts are less popular due to the information asymmetry problem in this financing model. Information asymmetry of Mudarabah (profit sharing) contracts, especially in terms of assets, usually occurs when the entrepreneur (mudarib) managing the Mudarabah (profit sharing) fund has full control over the project and has more control over the project and its profitability. Islamic banks (rabbul mall) are generally not accessible at the time of reporting. The ineffectiveness of the information entrustment will cause two major problems, namely adverse selection and moral hazard, which make it difficult for both parties to reach an optimal contract. Therefore, Islamic financial institutions have no interest in using mudarabah (profit sharing) as a financing tool. According to Bacha (1997), mudarabah (profit sharing) has lower expected returns and higher risks; This uneven distribution of risks and returns has led mature and window period Islamic banks to reduce their investment in using mudarabah (profit sharing) financing. (Sweep, 2016).

A form of investment partnership between a bank and a company in which both parties share risks and profits and losses at a pre-agreed level. Mobile transactions bring some of the benefits of commercial loans to commercial customers that comply with Shariah law. In fact, banks are required to participate in the business, while customers invest their time and expertise in the business. Mudarabah is a very powerful tool that eliminates social interest by providing an interest-free skill to use tools, especially by hiring them as managers to help mobilize social resources, and banks will provide financing and will also have opportunities. There is no profit or loss in the interest-based financing of venture capital. Mudaraba has a significant effect in reducing unemployment in the short and long term because it encourages technical personnel to conduct business management and promote business activities. Mudaraba also helps control inflation by promoting interest-free business activities. Interest and credit created by banks through loans are the main sources of social inflation. Mudarabah involves banks or other capitalists bearing profits and losses at the same time, rather than simply earning income through a predetermined interest rate using the needs of individuals or companies. (El Gatis, 2011).

Mudarabah is considered one of the most popular Islamic financial models by former and contemporary jurists and Islamic scholars. Ibn Taymiyyah observed: “Anyone who considers basic principles can easily conclude that Musaqat, Muzara`ah and Mudarabah are closer to justice than rent.” (Fatwa, Vol. 20, p. 356).

Khan and Mirakhor (1987) commented on the desirability of Mudarabah as follows: "Although profit sharing and partnerships play a small role in practice, they continue to dominate 'Islamic banking' theory. Practice should and will eventually be attracted to the norms ”(p. 185-199). One of the main obstacles to using Mudarabah in terms of bank assets (ie financing) is that only RabbulMaal is considered to bear all losses financial (Shaikh, 2010). Therefore, if an Islamic bank signs the Mudarabah contract as RabbulMaal, only the Islamic bank should bear all losses. Mudarib (fund manager) bears no losses and has full power to manage affairs commercial. Rabbulmaal (investors) cannot participate in business matters (this is different from the case of venture capital funds, where venture capitalists can include multiple contracts to deal with agency issues, and even choose BoD and BoM and change them accordingly). When a loss occurs, Mudarib behaves like an employee of a company, and when a profit occurs, he shares the profit as if he were the only reason behind the profit. Bacha (1997) emphasized the serious agency problem in Mudarabah and believed that it lacks the combined effect of debt financing, which will lead to inappropriate incentives. Their use of scenario analysis shows that for “borrowers” facing alternatives to Mudarabah, debt or equity financing, Mudarabah will be the best option in the risk-reward framework. However, for financiers facing the same three options, Mudarabah financing will be the worst. Similarly, Khalil et al. (s.f , Dar and Presley (2000), Warde (1999), and Rosly and Zaini (2008) also emphasized Mudalaba’s long-standing structural agency problem. (Sheikh, 2011).

3.1.6 Musharakah

Musharakahh financing is the most important method of influencing economic activities in the Islamic economy; It includes project financing and the

Musharakahh of depositors, banks and investors who share benefits and risks. Therefore, it will affect savings, investment, and domestic resource gaps. Compared to interest rates, the implementation of Musharraka financing is considered more flexible than interest rates. It includes three rates of return: the Musharraka depositor rate of return, the Musharraka Bank rate of return, and the Musharraka investor rate of return. At the same time, the interest rate is arbitrarily determined, on the one hand based on the loan period between the bank and the depositor, and on the other hand, based on the loan period between the bank and the investor. Investors will earn interest as a financing risk. Similarly, the mechanism for the equilibrium use of interest rates in the money market includes the transformation of savings into investment and the lag that affects economic activities, while Musharraka financing ensures that all parties participate simultaneously; banks, depositors and investors in the Musharraka process. Therefore, the delay is limited to the implementation period of the Musharakahh process (hatem adel, 2018).

It is an association, generally of limited duration, established for the execution of a specific project. Participation in Musharakah can be a new project or it can provide additional funding for an existing project. Profits are distributed on a predetermined basis and losses are amortized in proportion to the capital contribution. In this case, the bank and the client establish a partnership, the two parties share share capital and can even manage projects or transactions, and share profits or losses based on their actions. Musharakah encourages partnerships and also creates employment opportunities for many people in the society, promotes businesses and partnerships, creates employment opportunities in the country, and promotes the development of business culture and technical personnel in the society. Musharakah has a powerful role in controlling inflation and spreading unfounded credit, promoting joint ventures without strong research and research to ensure business success, not speculation. (El Gatis, 2011).

Musharaka means a joint venture with profit and loss participation. Its objective is to combine the talents of two or more partners in a company, each of whom contributes funds, management experience, effort and other basic services to the same degree or to varying degrees. Therefore, they share the risk and financial results based on their equity participation and effort. Since most banks do not want to be actively involved in the management of companies, this form of association is not commonly used in Islamic banks. Musharaka Encourages partnerships with recognized parties (ie banks, so financial bottlenecks are not a problem for small entrepreneurs). Most of the unknown business profits will be accurately determined, and most of the profits will go to the bank and ultimately to its depositors, unlike the bank-based Interest banking. Only a certain interest rate will flow to the bank and its creditors, that is, bank depositors. All these activities will help eliminate the shadow economy and idle resources, allow small savers in the economy to use and share, and reduce the population level below the poverty line. (College, 2008).

3.1.6 Empirical Review

Mustafa (2013) explored the impact of Islamic banking on the financial deepening of Muslims in Kenya. The study adopted a descriptive research design and used a sample of 384 Muslims. Questionnaires are used to collect data. Regression models are used to establish relationships between variables. The study shows that the lack of access to financial information services has affected the development of Islamic banking. In addition, the study also determined that government policies, regulations, and technological changes have affected the development of financial institutions. Additionally, the study found that clients had trouble raising funds, financing, and obtaining credit. Increased support for learning visits is recommended to improve the flow of information, and the government should formulate policies to train entrepreneurs.

Ackermann & Jacobs (2008) analyzed and described the banking needs of South African Muslim corporate clients for banking products that comply with Islamic law. The study tested five hypotheses to determine the demand for financial products based on profitable assets and that comply with the sharia. Applies the market-driven elements of the target cost model to analyze customer needs based on the costs associated with supplying the product. The results of the study indicate that South African Muslim corporate clients purchase Islamic banking products for religious reasons. The results show that price will be the determining factor when evaluating purchase decisions. The study further found that it makes sense for Muslim corporate clients to need asset-based financial products to fund their equity investment strategies. This article emphasizes that it is important for financial institutions to understand the needs of South African Muslim corporate customers for banking products that comply with Sharia law.

Abduh and Chowdhury (2012) used Bangladesh as an example to study the long-term dynamic relationship between Islamic banking development and economic development. This study uses the quarterly data of Islamic banks' economic development, total

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EPRA International Journal of Economics, Business and Management Studies (EBMS)
Volume: 9 | Issue: 4| April 2022 -Peer-reviewed Journal

financing, and total deposits from 2004 to 2011, and uses co-integration and Granger causality to find that Islamic banks' financing has both long-term and short-term positive effects on economic development. Related. This means that the development of Islamic banking is one of the policies that the government should consider to increase its revenue.

Johnson (2013) studied the role of Islamic banking in economic development. Using exogenous tools in the 2SLS regression, the results show that Islamic banking has no significant correlation with economic development. In particular, the inclusion of Islamic banking tools will affect the strength of Beta convergence. The study found that Solovian's basic norms indicate that convergence occurs; countries with higher initial GDP per capita have slower development. After considering the intensity of Islamic banking, this effect becomes less statistically significant, suggesting that part of the impact of convergence may play a role through the tendency to adopt Islamic banking. The empirical analysis refutes the assumption that Islamic banks have minimized the explanatory power of the origin of law 19 on economic development due to the independent implementation of Islamic laws; the results show that the accounting of Islamic banks has no influence on the right to determine legal sources. In addition, the study determined that the relevance of Islamic banking and financial deepening is highly dependent on legal sources, which has a negative impact on countries with British legal sources and a positive impact on countries with French legal sources.

Kadubo (2010) investigated the factors affecting the development of Islamic banking in Kenya. The study used a case study method and focused on four Islamic banks in Kenya, including First Community Bank; Gulf Africa Bank; Dubai Bank; Kenya Commercial Bank Limited and Barclays Bank Limited. This is a sample of 33 clients, they are account holders and 11 managers of their respective banks. Data is collected through the use of questionnaires. The study shows that compliance with Islamic banking is driven by religious compliance and customer needs. It also revealed that the continuous review and improvement of Sharia-compliant products and diversified market niches will lead to the rapid development and commercialization of Islamic banking products. The study concluded that the factors affecting the development of Islamic Bank of Kenya products are purely religious compliance and customer needs.

Daud, Yussof, and Abideen (2011) studied the views of young Nigerian Muslims in Malaysia on the expected role of the Central Bank of Nigeria in the establishment and operation of Nigeria's IB. The research focuses on the views of students from three Malaysian universities, namely Kolej Universiti Insaniah, University of Northern Malaysia, and International Islamic University of Malaysia. The research sample included 100 questionnaires, 85% of which were returned and available. Use SPSS 18 version statistical software package for statistical analysis of the collected data, using tTests OneSample and IndependentSamples analysis. The survey results show that the role of the Central Bank of Nigeria in establishing and operating IBs in Nigeria is not important. Other findings suggest that the Central Bank of Nigeria should seriously promote appropriate research on IBs, further strengthen the legal framework for IBs, and that the Central Bank of Nigeria should cooperate with judicial institutions to establish Sharia courts to conduct trials of IBS cases.

4.1 METHODOLOGY

This chapter related to the presentation of study methodology. It consists of research design, study area, target population, sample size, sampling procedure, research tool, data analysis, ethical consideration and limitations of the study.

The research design of this study was quantitative, because the study was conducted on secondary data through the internet and used questionnaire as instrument of primary data collection. Quantitative research can be used in response to relational questions of variables within the research. (Williams, 2007). In this study we used survey method to meet the main objective of study which was to Investigate the effects of Islamic finance practices on social development in Somalia.

Dahabshiil is one of the Islamic Banks in Somalia. It locates in all regions in Somalia in general and Mogadishu in particular. The main center of Dahabshiil Bank locates in Maka-almukarama street, near Tree Piano house in Waberi District in Mogadishu Somalia. It also has other branches in seventeen districts in Mogadishu.

There are a lot of famous centers of Dahabshiil Bank including Jid-marehan Branch, Bakaro Branch, Tree Piano Banch, and Suq-bacad Branch.

The target population in this research covers some specific clients of Islamic banks in Mogadishu. This study will specifically target clients of two selected banks are Dahabshiil and Salaama Banks. The sample population of this study consists of 100 clients in order to get the relevant information which clarify the effects of Islamic finance practices on social development in Somalia.

State that a sampling frame contains a complete and up to date list that comprises the population for the research. A sampling frame is essential in outlining the members present in the target population (Saunders et al., 2019). The sample size will make up 60 respondents.

5.1 SUMMARY OF FINDINGS

According to Table 4.1.1 the majority of the respondents of male 45 (75.0%) where respondents of female are 15 (25.0%).

According to Table 4.1.2 the majority of respondents 25 (41.7%) who were between 35-44 years old, 17 (28.3%) who were between 25-34 years old, 11 (18.3%) were between 15-24 years old, while only 7 (11.7%), were between Above 45 years.

According to table 4.1.3 43 of the respondents were married representing 71.7% and 17 of the respondents were single representing 28.3%

According to table 4.1.4 the respondents were classified according to the educational level or qualifications and which can be grouped into the four groups, 41 were university level (68.3%), 9 were informal education (15.0%). 7 were secondary (11.7%), 3 primary (5.0%). This means that the most respondents of the educational level of study were university (68.3%).

According to table 4.1.5 the respondents were asked questions to indicate their years of experience in questionnaire and offered choices classified years into two parts. Part one was intended for those have employment and scored 49 which represents (81.7%), the second part was for those who have unemployment scored 11 representing (18.3%). This implies that majority of the respondents were employed and ranked 81.7%.

According to table 4.1.6 43 of the respondents were customers representing (81.7), 11 were employees of Islamic banks (18.3%), 3 were other (5.0%), 2 were sharia advisors (3.3%), 1 was regulatory officer, This means that the most respondents who relate with Islamic finance practices were customers (81.7%).

According to The Table 4.1.7 the whole of the respondents were 60 (100%) strongly agreed that using Murabaha satisfy to increase their economic.

According to The Table 4.2.1 the above table shows the total mean average that was (4.95) which indicates the satisfied response of Shariah Bases. The second score of mean from respondents was (4.85) that stands the response level of "True to the teaching of Islam". The third mean score was (4.76) from "A good vehicle to promote Islamic value". The fourth mean score was (4.30) from "Working as per the teaching of Quran and Sunnah". The fifth one was (4.25) from "Investing in business where there is no Grarar (more risk)".

According to The Table 4.2.2 shows total average means (4.75). It indicates that most respondents strongly satisfied with Islamic finance practices will enhance product and service quality. The second score of mean from respondents was (4.75) that stands the response pointing out that Islamic finance practices maximize profits (good percentage of return to investors). The mean level scores 4.55 tells that Islamic finance practices contribute to social welfare. The fourth mean level scores 4.55 which shows that Islamic finance practices will contribute in removing general standard of living. The last level of mean scores 4.53 which demonstrates that Islamic finance practices help in alleviating poverty (poverty eradication).

According to The Table 4.2.3 shows total average means (4.53) that indicates most respondents strongly agreed that Islamic finance practices enhance product and service quality and business increaement. The second mean scores 4.36 which demonstrates that some respondents believe that
Islamic finance practices provide employment opportunities. 4.05 mean shows that some respondents expressed that Islamic finance practices will promote sustainable development projects and job existence.

According to Table 4.3.1 shows correlation **-** The first objective of this study was to investigate effects of Islamic finance practices on social development. The study found positive relationship between Islamic finance practice and Social development. At (r=.898 and p>0.01). The second objective was to examine the relationship between the effects Islamic finance practices and reduction of poverty. The study indicated positive relationship at (r=.820 and p>0.01). The third objective of this study was to describe the relationship between positive effects of Islamic finance practices and creating jobs. The result showed positive relationship at (r=.818 and p>0.01) Correlation.

6.1

6.2 CONCLUSION

Islamic finance has been widely recognized as a booming business globally during the previous three decades. Several Islamic financial institutions are working on the concept of attracting customers and financial facilitators to the Islamic financial market. They promote the banking business by encouraging

Journal DOI: 10.36713/epra1013|SJIF Impact Factor (2021): 7.473 ISSN: 2347-4378
EPRA International Journal of Economics, Business and Management Studies (EBMS)
Volume: 9 | Issue: 4| April 2022 -Peer-reviewed Journal

best-in-class global standards that affirm Islamic law (Shariah) compliance and transparency. Since the beginning of the twenty-first century, the Islamic financial sector's expansion and improvements have elicited positive and sufficient feedback. Islamic banking and finance have grown in importance in Arab and Islamic countries, as well as in other countries, over the last three decades. Following that, Islamic finance refers to a banking arrangement that complies with Islamic law, also known as "Shari'ah" law, which has as its basic standards the sharing of risk and benefit between parties, the confirmation of decency and transparency for all partners, and the limitation of assumption. Islamic finance is one of the most rapidly changing concepts in the world economy. The acquisition of Islamic money has gained increasing attention and inspiration around the world. The fact that is not only the religion that is fascinating the people towards Islamic finance but essentially the services and the products provided by the Islamic finance that are the main reason which attract the consumers towards it (Awan & Azhar, 2014). The products and facilities of Islamic finance had a real potential around the world particularly within the American Research Journal of Humanities & Social Science (ARJHSS)R) 2020 ARJHSS Journal www.arjhss.com Page | 30 the corporate sector. The profit-sharing principle is the only principle that can replace the component of interest in the operations of finance system (Rustam, Bibi, Zaman, Rustam, & Zahid-ul-Haq, 2011). (Ullah et al., 2020).

The first Islamic organizations that provided unrestricted Islamic financial services appeared in the 1960s, when Islamic banks began to appear in countries with large Muslim populations (Komijani & Taghizadeh-Hesary, 2019). Islamic banking is playing important role in the development of Islamic finance industry and has grown rapidly in Somalia recently. Islamic finance has potential solution to cover poverty reduction and promises to socio-economic justice in addition to reduction unemployment in Somalia. (Mohamed & Ahmed, 2015).

Poverty is one of the greatest problems affecting developing countries. Socio-economic imbalances, created by both natural and artificial resource scarcity, restrict impoverished people’s access to economic opportunities, limiting their purchasing power and empowerment. Environmental degradation is thus both a cause and effect of resource scarcity, as the poor are forced to seek increasingly environmentally and economically unsustainable methods of income generation, further marginalizing them. Socio-economic imbalance and resource scarcity, characterized by low competitiveness, high unemployment rates, economic stagnation, and the inappropriate use of natural resources, are two of the greatest causes of poverty. Economic development and creating job opportunities are the aim of poverty alleviation programs. Sustainable development is possible if MFIs, non-governmental organizations (NGOs), and governments collaborate to find the best strategies to mitigate the negative effects of clients’ businesses on the environment. Empirical studies on the connection between microfinance and environmental awareness may prove meaningful, particularly for decision-makers. (Effendi, 2017).

The role of Islamic financial institutions in improving social welfare has attracted the attention of policy makers in developing countries around the world. The role of Islamic financial institutions in the fight against poverty is not only essential to job creation. There are many aspects to poverty that can be dealt with in different ways. Islamic finance has the ability to effectively address the root causes of poverty problems, so funding a sustainable Islamic financial program is a timely demand for poverty reduction and Islamic care for the poor. Connects the principles of social responsibility. Encouraging job creation through Islamic funding by funding unemployed youth to become self-employed reduces the unemployment rate.

The outcomes of this study could provide clear evidence about the impact of Islamic finance on the poor wellbeing and contributes to the body knowledge of the literature. It also will hopefully provide valuable guidelines to the researchers to discover the best alternatives for reducing poverty and unemployment.

There are effects of Islamic finance practices on social development in Ceel-qalow Shop. The study thus concluded that Islamic finance practices on social development by using Pearson correlation, the result indicated that there is strongly positive effects of Islamic finance practices on social development.

7.1 RECOMMENDATION

The study has got the following recommendations;

1. Private Islamic banks are financial institutions and they provide financial transaction among the investors but our local banks are different from that mentioned above because they have two function, first one is as accepting public deposits and the role of investor using people's money, for this case, they earn more profit from that money. What I suggest is the banks should start to facilitate financing new projects forth young entrepreneurs charging affordable markup and in addition to that in order to attract more depositing customers to assign a predetermined rate of return from the money they deposited in the bank. I’m

sure if the banks adopt and implement the program mentioned above, they will be part of economic development while creating more jobs and reducing the rate of unemployment. The study suggests Islamic banks to increase the payment of the Mubaraha loan and reduce the bank's profit rate such as from $12 to $7 in order to get more people to finance more investments which will improve the social developments or economy.

2. The study recommends Islamic banks to simplify the investment application conditions in order to encourage people to invest more.
3. The government have to pass a law to protect the innovations and creativity of entrepreneurs.
4. The governments have to plan a creation of job opportunities in order to reduce poverty.

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