THE IMPACT OF ISLAMIC MICROFINANCE ON SMALL AND MEDIUM ENTERPRISES (SMEs) IN SOMALIA

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Abstract
The goal of this study is to examine the influence of Islamic microfinance on small and medium enterprises in Mogadishu, as well as how to acquire strategies to accomplish concrete progress for SMEs in the country, as well as to reduce unemployment and generate small jobs. In this study, I employed qualitative analysis and excerpts from several articles to analyze this topic through similar themes or papers. Islamic microfinance is a significant tool for eradicating poverty and restoring hope to unemployed people, as well as converting them into entrepreneurs, resulting in a favorable image of society. The monies granted to SMEs by Islamic microfinance organizations form the backbone of business activities. Small companies in Mogadishu have benefited from the initiative, and it has saved the lives of many families; thus, continuing the program will unite the country. The major goal is to raise awareness about the IMF's good influence on SMEs in Mogadishu, Somalia, as well as how people perceive the IMF and whether they can profit from it properly. However, the impact of Islamic microfinance on small company operations in Mogadishu city is far less than what the city's market people expect. The obstacles facing Mogadishu in adopting ISMF include a shortage of ISMF, a lack of banks with sufficient financial resources to participate in SMES firms, and a high rate of ISMF imposed by financial institutions on SMES owners or entrepreneurs, and a lack of trust between banks and consumers. Entrepreneurs, on the other hand, achieve SMES operations by soliciting finances from various angels such as families, relatives, private companies, and charitable foundations.

Keywords: Small and medium enterprise, Islamic microfinance, and microcredit

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Introduction

This paper will discuss the concerns surrounding Islamic microfinance, including whether it has an impact on social business activities and the challenges that both market groups face. These are the financial institutions and loan takers who will be identified as small and medium business activities in Mogadishu, Somalia.

Somalia is one of the African countries with a lower unemployment rate than the rest of the continent. However, following 1990, the country's unemployment problem was caused by a variety of challenges. The country's central administration has crumbled at the hands of gunned-down rebels or opposition organizations, who may be about to overthrow the government. Unfortunately, the country has devolved into clan warfare, and the country has been divided into regions, with each clan in charge of its own.

It is the world's first feminist continent. Many jobless people are unable to benefit from their resources due to unemployment, injustice, corruption, and poor leadership. Every year, we can see how droughts, illnesses, famines, and conflicts affect some or all of the continent's countries. As a result of all of these issues, the world's poorest people have emerged. However, other countries have made progress toward development by lowering unemployment rates, and in this paper, I'd like to discuss Somalia, an east African country. It is one of the African countries that has been plagued by misfortune and the shadow of conflict for a long time, over 30 years of insecurity, and everything has been damaged, including the economy, social life, education, political framework, and city infrastructure.

It has Africa's longest beach, an agricultural area rich in natural minerals, and Somalia's economy is based on three major sectors: agriculture, fishing, and livestock. However, in the last 30 years of instability, many problems have plagued them, including floods, droughts, and a lack of investment and support programs such as providing seeds for agriculture and providing training. However, in the last 20 years, Somalia has joined the telecommunications revolution. However, there remained financial hardship in the country, which affected the majority of the population in the cities, particularly in Mogadishu.

Because the banks that are now operating in the country are insufficient to combat unemployment or alleviate poverty. The majority of the country's population is young, accounting for roughly 70% of the total population, and the establishment of many companies and banks will directly reduce youth unemployment, resulting in an increase in their income and encouraging the entire population to consider what is best for the country and themselves.

The purpose of this paper is to learn about and analyze the positive impact of Islamic microfinance on small and medium businesses, as well as the nature of trust between banks and their customers, and how this Islamic product part handles low-income families in Mogadishu and provides opportunities for job creation. The concerns I researched also include the challenges that banks, and clients may face in the future when entering into contracts, particularly Islamic microfinance, which I discuss in my paper.

The findings of the investigation will be valuable to a variety of parties, including banks and clients. The findings of the study will be examined and used to help the disempowered community in general, and as well as the business network. It may also aid those concerned policymakers to create crucial and solution-oriented policies in order to truly benefit the entire population.

To be exceptional the results of this study will help in making decisions in regard to fast Monitoring coverage dimensions that will assist future writers in not only realizing the status quotations of Islamic microfinance, but also the effective operation of Islamic institutions and supervision of Islamic economic services establishments in the country, together now and in the future, which will improve the country's economy. Additionally, this study aims to provide an investment tip to all current and potential investors to help them target this untapped sector in order to help improve the economy, in general community living as well as competition and performance. The findings of this study also have the potential to contribute to knowledge construction and educational studies by supporting other researchers in doing more specific research on the problem and providing relevant factual evidence.

1. Overview Of Islamic Banking and Finance

I'd want to present what has been said regarding Islamic microfinance in this section of my project. And also what is said about Small and medium-sized businesses. Somalia is one of the least economically developed countries in the world, having one of the highest unemployment rates. As a result, both human and financial resources have been inadequately developed. Small and medium-sized businesses have a positive impact on the economic development of developing countries like Somalia, according to studies; yet Somalis are burdened by the follow-up of charitable contributions from industrialized countries. Since the breakdown of Somalia's central government in 1991, the country has lacked formal monetary institutions and an industrial banking industry.

Prior to the civil wars start, Somalia's financial sector was formal and strong, with four monetary institutions: the Central Bank of Somalia (CBS), the State Insurance Company (SIC), the Somali Development Bank (SDB), and the Commercial and Saving Bank (CSB). Following the establishment of the central government privately held monetary institutions began to operate and provide basic financial services. They began with money transfers and progressed to financial middlemen (Islamic banking) who offered deposit and financing products. Despite the fact that Somalia's economic sector faces numerous challenges, including the lack of a powerful formal banking sector, the loss of professional personnel, and a lack of confidence problem as a result of the civil war, and a fragile regulatory framework and security alternative, the Central Bank of Somalia is working with large producers to develop countrywide financial systems and fills the government’s financial activities such as savings and paying salaries to the nation workers and also offering licenses to the private financial institutions .

According to Idris (2016), well-managed charitable aid can have a tremendously positive impact on the economy, including promoting local business restoration, job creation, and increased government tax revenue; however, it can also cause price inflation, decreased supply of goods, and weaken local businesses, potentially leading to closures. Thereforein the last 20 years, Somalia's business industry has expanded too many sectors of the tradeandincludes telecommunications, Islamic banking, and exporting some of its products such as fish and fruits to other nations, as well as importing goods such as cosmetics, building materials, and other items from around the world.

Islamic banking, according to (Mohamed Ali Abdinur, 1.2022), is a banking system based on *Shari’ah* (Islamic laws) principles and its practical utility. Islamic banking is also known as interest-free banking because the *Shari’ah* forbids the practice of charging interest. Islamic banking was first proposed in the late twentieth century. The Islamic financial structure led to the abandonment of the interest-bearing system and the adoption of the profit-sharing theory, which has been applied to various activities and bank offerings by Islamic banks (Hassan, 2019, Farah, 2020).

Several Islamic banks are already operating in Somalia, with a few more likely to open soon. In the recent year, two new banks have entered the banking system. Somalia Many private services, such as SMEsfinancing, personal financing, and home financing, are now financed by Islamic banks using forms of finance such as *Murabaha*, *Musharaka*, *Mudaraba*, Salam, and *Qarad* Hassan.

The primary market in Somalia is Bakara, which is the country's and East Africa's largestmarketplace, and is where the majority of bank offices or headquarters are located, as well as where the majority of SMES operate, since SMES account for two-thirds of the country's enterprises. This market is divided into sections such as the gold market, clothing market, medication market, and fruit market. Food markets include rice, spaghetti, oil, and other local foods, as well as construction materials, building marketplaces, and company roads.

1.1 Islamic principles and Islamic finance

As the world's second-largest religion, Islam has an estimated 1.8 billion adherents, or 24% of the world's population. It is also the fastest-growing religion, a development that affects not only traditional Islamic countries, such as those in northern Africa and the Middle East, but also nations all over the globe.

According to Islamic history, our Prophet Mohammed (PPU) was born at Makah, in the year 570 C.E. During the seventh century of the Christian Era, Prophet Muhammad received divine revelations (The Holy Quran) over a 23-year period (Segrado, August 2005).A person's knowledge is primarily derived from the Holy Quran and *Sunnah*. The Holy Quran acts as a confirmation and standard for what is true and false, while the *Sunnah* can be found in books called *Hadith*, which are separate from the Holy Quran. Each *hadith* in the Holy Quran is still considered authentic, but it can no longer be said to be the word of God as revealed to the Prophet. Early Muslim students categorized *hadith* into a wide range of classes, from the most accurate to the most blatantly false.

The *Sunnah* is regarded as the second most important source of *Shari'ah* principles in the *Fiqh* of the Qur'an by Islamic societies. Most Westerners find it difficult to comprehend that there is no separation of religion and state in Islamic Law. Because of this, it's difficult for most Westerners to grasp that Islamic Law does not recognize any distinction between religion and state. It's impossible to separate religious values from those of the state. Islam is administered, governed, and regulated by Islamic norms. Theocracy rules over everything, public and private. One grouping includes government, legislation, religious beliefs.

Many countries have varying degrees of this principle, but it underpins all legislation, government, and civil authority, and it is an integral aspect of Islamic law. Civil law norms exist in Muslim overseas regions for both Muslims and non-Muslims. The one that applies to Muslims is *Shari'ah*, which rules every aspect of their lives. Faith in God and the finality of Muhammad's prophet hood (pbuh), devotion to the five daily prayers, *zakat* giving and hardship for the poor, self-purification via fasting, and pilgrimage to Mecca for those who can make it are the cornerstones of Muslim life.

With a big Muslim population, non-Muslim emerging countries have examined a broad variety of monetary arrangements. Throughout history, Muslims have sought ways to balance their religious beliefs with their country's economic realities. Various levels of compatibility with the empires and traditions they encountered have been proved by this.

Muslims' monetary systems tend to follow the global framework, re-creating the recurring tensions between justice and growth, import substitution, and export-driven industrialization. In many Muslim nations, those views have taken on an especially gloomy tone because of their close ties to the global financial, economic, and financial system. Many Muslim countries' development has been impeded by oil wealth and the associated flow of labor transfers and mutually usable aid resources.

Within and within Muslim countries, the extent to which Islamic principles have driven financial coverage and the normative alternatives that highlight such policies has varied throughout time. As a result of Islam's monumental vision of economic justice, there is a gap at the heart of Islamic policy, which is clogged by the complex interplay of political, social, and financial pressures. Thus, the perplexing question of why Islam is mentioned in discussions about financial norms in some cases but not in others becomes a historical and sociological investigation.

The monetary liberalization and increased interconnectedness during the 1980s and 1990s significantly influenced the political and economic plans of Muslim countries, notably those located in Africa, the Middle East, and Asia. Muslim bankers and religious leaders developed strategies to combine Islamic rules on money usage with existing principles of ethical investing in the 1980s and 1990s. As a result, a complex monetary subject with its set of own principles has arisen. Some of these revived traditional micro challenge capital and moral investing frameworks that thrived in medal time, but they incorporated many cutting-edge techniques and technology, and as we know, modern Islamic financial policies are based more on Islamic principles and getting more ethical banks systems that agree with the Islamic rules.

Because Somalia is a country with a large Muslim population and a long history of religious ethics, the adoption of an Islamic financial system in the country to meet the need for banks that accord with their religion was warmly embraced. According to what I haveheard, Somalia's bank system was traditional before 1990, and the country had at least four banks, including the Central Bank of Somalia and the Somali Commercial Bank, Somali Savings and Credit Bank, and Somali Development Bank, all of which are no longer operational except the Central Bank of Somalia SBC, while the others have been replaced by privately owned banks that adhere to Islamic financial rules.

2. Islamic Financial Contracts in Somalia

As we all know, Islamic financial institutions provide their own services, and I will use this gap to discuss general financial contracts of Islamic banks around the world, particularly in Somalia. Since Islamic Banking can be used as a substitute for multipart, *Shari'ah* principles are ruled by using Islamic *fiqh* specialists known as *fuqaha*, or it is often dangerous to achieve *Shari'ah* rules consent, hiring a consultant is recommended. In actuality, these contracts are exposed to exorbitant risks, posing an ethical dilemma. Banks and their clients must, on the other hand, come to a significant level of agreement in terms of honesty, integrity (including fraud), control, and entrepreneurial skills.

The difficulty of tracking and supervision is also a source of contention. With no requirement for collateral among the justice financing institutions such as *Mudarabah*, microfinance, and *Musharakah* in Somalia, the Islamic contracts and definitions that are most typically encountered in Somalia are listed below.

2.1 Murabaha

According to(Segrado, August 2005)article "*Murabaha* is one of the most well-known Islamic financial contracts offered by banks to their customers, consisting of a value-plus-earnings financing transaction in which an Islamic institution purchases a tangible asset from a merchant on the request of its customer. The Islamic institution then sells the asset to its client on a delayed sale basis, with a mark-up that reflects the bank's earnings from the asset transaction" This contract is the most commonly used in Mogadishu banks, and always companies' workers are the group that enters such contracts, as well as university students and other company workers, and most banks do *Murabaha* with rates ranging from 10% to 30% of the cost of goods entered *Murabaha* contract according to the highly price takes the contract and time spent.

2.1 Mudarabah

Mudarabah accepts as correct a trust finance arrangement contract in which an investor (Islamic financial institution) entrusts cash to a seasoned agent (*Mudarib*) who is familiar with the contracts for a venture in the markets.

Profits are totally determined by a pre-determined and mutually agreed-upon ratio between the principle and the agent. It is akin to a Western-style limited partnership in that one side contributes capital while the other controls the business and profits are agreed upon completely depending on the Percentage of ownership that has been discussed between the two parties. In the event of a loss, the bank receives no or a very poor return on its investment, while the agent receives no compensation for his or her services. All economic duties in this type of agreement are based on the business itself: the economic organization invests in a notion, a challenge, and shares its fate, based on the *mudarabah's* monetary offerings in the following areas. Demand Deposits: These are unrestricted, payable on demand, and do not generate any income from the money deposited. Second, mutual Investment Deposits: An Islamic Bank will combine these deposits with its own funds in order to participate in mutual financial support transactions that the bank facilitates. The income share under these deposits remains constant at the end of the financial institution's monetary year.

Thirdly Special Investment Deposits: An Islamic bank will invest these deposits in a specified task unless the depositor requests or supports funding in the first place. The depositor in this contract may be entitled to earnings and may be liable for losses if the financial institution is not paying attention to the contract's conclusion.

The financial institution obtains its part of earnings in exchange for its donation of experience in and management when the deposit amount is forfeited, while the depositor earns his portion of profit as a capital percentage supplier. All of these deposit transactions are based on the Islamic *Shari'ah* principle of *Mudarabah* (Participation Financing), in which one party (the depositor) contributes the cash and the other (the Bank) provides the experience and management to the contract. A traditional *Mudarabah* has been practiced in Somalia for a long time, according to (omar, may 2015).

This type of *Mudarabah* became popular in Somalia's southern regions, where agricultural and animal-raising sports are popular. Somalis exclusively practiced *Mudarabah* in the agricultural sector, primarily in the cultivation of green greens and coins plants within the vast river in fields. This is because growing green vegetables and cash crops requires more skills than growing long-term fruits and plants. Onion, watermelon, salad, carrots, sesame, and on sometimes maize are among the vital greens those always found in *Mudarabah* sports.

The *Rabul*-mal is the landowner, while *mudarib* is the operator. In this *Mudarabah* machine, which I call Somali Traditional *Mudarabah* (STM), the *Rabul* Mal provides land, seed, irrigation water, fertilizer, and pesticides in proportion to the *Mudarib's* living expenditures, as well as food and medicine. However, the dwelling fees are not considered part of the *Mudaraba's* capital, but rather a loan to the *Mudarib* that can be subtracted from his or her income ratio. Within the *Mudarabah* arrangement, this mortgage is an all-inclusive situation. In exchange, *Mudarib* contributes time and effort to provide the desired product on a 50-50 profit share basis.

This variant of STM is significantly more popular between the two rivers of Jubba and Shebelle, which run from Hiran north to the Lower Jubba Region south. In the Hiran Region, there is one more term in the settlement: the *Mudarib* must also go through the value of land preparation! This may appear to be a partnership, but because the landowner is expected to pay all essential funds for operation in advance, and the operator is obligated to provide expertise and repay loans, this version is far more comparable to the STM than a solo partnership. This is the second most commonly used product in Somali Islamic banks, and it is always utilized in house finance such as real estate, auto financing, and land financing, and clients are urged to do so with banks.

2.2 Musharakah

Musharakah, which literally means partnership in Arabic, is sometimes referred to in financial terms as a fairness participation agreement. Although all *shari'ah* scholars agree that the *Musharakah* financing precept is valid, their assessments of the ratio of income that can be charged in *Musharakah* contracts differ.

According to the *Shafi* and *Maliki* schools of thought (*madahabs*), the entrepreneur and financier must share profit and loss in the same proportion as their investment. In conclusion, any income ratio can be set with the approval and agreement of the spouses, according to the *Hanafi* and *Hanbali* schools of thought. Although the *Hanafi* School of thought also states that if a partner specifies that he or she will be able to continue to be a sound asleep partner at some point throughout the *Musharakah* term, then his or her profit proportion cannot exceed the financing ratio.

Although business and exchange in Islam is generally built on ease and leniency, it is critical to follow the policies of one school of thought when designing finance arrangements and not to mix the perspectives of or larger *Madhabs* in an invalid manner.

In the instance of a challenge that results in a loss, all Muslim jurists believe that each companion should suffer a loss proportional to his or her investment.(Khan, Islamic Microfinance Theory, Policy and Practice, February 2008).

Musharakah can be used for property or working capital at the end of the manufacturing cycle, or season of the year, when the manufacturing fees or expenses are deducted from the sales made during operational activities, and a certain percentage is set aside for management expenses, with the remainder divided among the partners in accordance with their percentage funding in the percentage capital or other agreed division.

If the entrepreneur controls the project entirely, the management fees deduct from his or her profit percentage. If the financier is involved in management, a portion of the fees is paid to him. Depending on the entrepreneur's bargaining power and the nature of the assignment, management fees often range from 10% to 30% of profit (for instance, if the hobby calls for unique capabilities the proportion of the entrepreneur may be more). A partnership with two or more partners may also contribute to the investment's funds and experience. Historically, this type of transaction has been utilized to fund medium and long-term investment projects.

This agreement may resemble a joint venture with participation finance. Two parties contribute money to a venture that they may also manage. Profits are distributed according to predetermined ratios, but losses are distributed according to equity participation. The remarkable aspect of this agreement isn't always the sharing of profits and losses, but rather the sharing of management and decision-making authority.

Musharakah, or fairness participation financing, is the third most popular option offered by Somali financial institutions. In this case, the partners or shareholders use their capital to make a profit through a Limited Partnership. This idea is fantastic for fixed-income investing, and unlike *Mudarabah*, all capital businesses are entitled to participate in control, but not always obligated to do so.

A relationship between two or more occurrences that provide money to a business and divide the net profit and loss in a profit rate is known as *'Musharakah*.' *'Mudarabah'* and *'Musharakah'* are the favored forms of Islamic banking, despite their limited use in modern times. The depositors of Islamic financial institutions act as *Rabul-maland* area financiers with the bank. The financial institution may also serve as a charge earning agent on behalf of the fund carriers and/or fund searchers, or as a traditional fund supervisor investing in a diversified portfolio of *Musharakah* contracts in an off-balance sheet capacity. There are various different commercial transaction strategies. Islamic banks offer money to nonprofit organizations by issuing floating-rate hobby loans. The income-sharing agreement is completed after the principal amount of the mortgage is paid off.

2.3 Microfinance

Microfinance in South Asia arose from experiments; nevertheless, the first well-known start occurred in Bangladesh in 1976, when Muhammad *Yunus* established the *Grameen* Bank on the outskirts of Chittagong University's campus in the village of *Jobra*. Microfinance, according to Otero (1999), is the provision of financial services to low-income and low-wage self-employed people. These financial services include financial savings and credit, but they can also include other financial services such as insurance, switch of charge services, and remittances. Microfinance is the provision of financial services such as savings, loans, and insurance to low-income persons in both urban and rural areas who are unable to obtain such services from official financial institutions (Ojo, 2009). (Tall), The Challenges Facing Microfinance Institutions in Poverty Eradication: A Case Study in Mogadishu, Volume 2, Issue 2, February 2015, PP 56-62).

Microfinance is the provision of financial services such as credit (loans), savings, micro leasing, micro insurance, and price transfers to economically active low- and occasional-income households to enable them to participate in income-generating activities or grow their small businesses (Irobi, 2008). Microfinance, according to Robinson (2001), is defined as the provision of loans, savings, and other basic monetary services to low-income individuals and organizations. The concept of MF has become increasingly popular in recent years. Many people all around the world have benefited from Microfinance Institutions' investment and increased their income by establishing jobs in recent decades.

Because the General Secretary of the United Nations declared 2005 to be the International Year of Microcredit, microfinance is seen as a particularly effective development tool. Microfinance is also a very adaptable tool that can be tailored to the specific needs and financial and monetary circumstances of any environment. In Asia, for example, institutional micro lending has proven to be quite effective, whereas in Egypt or Brazil, individuals have more possibilities for lending. Another example: in India, MFIs (Microfinance Institutions) and NGOs(Non-Governmental Organizations) rely on financial savings collection to help their groups and grow sustainable, however in Egypt, they are prohibited by law from collecting financial savings. Microfinance can be beneficial in both the South and the West, in countries that are equally defined by economic and social marginalization.

Microfinance, according to Matovu (2006), can be an effective tool for poverty reduction and plays an important role in poverty alleviation. Microfinance is defined as the provision of savings, credit, and insurance facilities to enable poor people to smooth their consumption, manage their risk better, regularly build their asset base, expand their micro businesses, improve their earnings earning ability, and enjoy a higher standard of living (Kessy, 2006.).

Microfinance, according to (ABDIKADIR, June, 2018), is a term used to describe the practice of providing financial services to consumers who are excluded from the traditional system due to their lower economic status. By eliminating the need for collateral and developing a banking system based on mutual confidence, the economic offerings will most commonly take the form of loans and deposits (Wikipedia).

Microfinance is the provision of loans, savings, cash transfers, insurance, and other financial services to low-income people. It encompasses a wide range of businesses that vary in prison shape, mission, and method, but all provide these services to customers who do not have entry to mainstream banks or other formal monetary carrier vendors(Anne-Lucie Lafourcade, April 2005). Because every dollar spent in microfinance is used numerous times, it is a cost-effective way of contributing to improvement and poverty reduction. However, it requires a lot of effort in terms of human resources, financial planning, and the development of accompanying infrastructure to get microfinance institutions to the point where they can function as an integrated component of the larger financial system.

Microfinance institutions' earnings can definitely be high once they've grown; allowing them to expand and expand their outreach to the poor through internally generated pricing ranges (UNCDF, 2003;(Noreen, March 2012).

(Nagarajan, January 2000)provide a more relevant and likely practical definition of microfinance: "the availability of a broad range of monetary offers, including deposits, loans, payment services, money transfer, and also providing insurance to low-income people and their micro enterprises."

When combined with other economic development methods such as microfinance, the concept of Islamic finance in Muslim nations is one of the most effective instruments for combating poverty in so-called developing countries. Both Islamic finance and microfinance appear to be principles shrouded in secrecy in Muslim-majority countries: banks, financial institutions, microfinance institutions, and non-governmental organizations (NGOs) are all interested in learning more about the issues, particularly the relationship between the two, especially in terms of poverty alleviation. Even though the interest rate is high, there are just a few examples of genuine Islamic finance MFIs and Islamic banks involved in microfinance. Nonetheless, data shows that Islamic microfinance is needed and desired for a variety of reasons.

Microfinance is a highly adaptable tool, with models that can be replicated but that must be tailored to the local socioeconomic and cultural characteristics, and the capacity demand for tailored microfinance services is still largely unmet, particularly in countries where Muslims make up the majority of the population. This challenge will pique the interest of commercial banks as a way to tap into new market niches, build client loyalty, and improve patron satisfaction. Most of the concepts shared by Islamic finance, microfinance, and socially responsible finance are the same, including: • prohibition of all types of financial activities that are morally or socially injurious • self-governing approach (no restriction on any category of customers) • focus on the well-being of the community as a whole, with a particular focus on the poor, destitute, or disadvantaged sections of society.

In addition to that, they each reflect types of finance that specialize in activities that lack money but are promising and demonstrate capability, constituting unconventional but powerful responses to monetary wants.

At a very basic level, the issuance of collateral-free loans is an example of how Islamic banking and microfinance contribute to the attainment of common goals. As a result, Islamic banking and microcredit programs may complement each other ideologically and practically (Dhumale, A. 1999.)

Even though they are both relatively new traits in the monetary environment, the integration of Islamic finance and microfinance into the aerobics instructions of the traditional banking machine developed in a similar manner, because they both started from a marginal position and managed to gain a growing reputation.

Continuous provision of microfinance products and services to the needy aids in the reduction of poverty levels in the country’s population. It is consequently critical to have a thorough understanding of what financial services the poor require. This group's demands in Islamic countries are similar to those of poor people in other communities. They require financial services because they are frequently presented with situations that require them to spend more money than they have.

Lifecycle measures, immediate crisis needs, and investment possibilities are the three primary categories of such events, according to experts. Every household has about experience exceptional occurrences (birth, marriage, death, home construction, old age) as well as repeated incidents (education, festivals, and harvest times). Personal difficulties such as illness or injury, the death of a breadwinner or loss of job, and theft, as well as natural calamities and disasters such as earthquakes, floods, and famines, are all examples of emergencies.(Obaidullah, INTRODUCTION TO ISLAMIC MICROFINANCE, 2008).

Microfinance is the provision of modest loans to impoverished individuals (particularly those who have traditionally been excluded from financial services) through programs tailored to their specific needs and circumstances.

3 Islamic Microfinance and Its Implementation In Somalia

3.1 Microfinance in Islam

Traditional microfinance is not the same as Islamic microfinance. The key distinction in microfinance is the use of interest in the contract because interest is prohibited by Islamic *sharia* regulations and is referenced or prohibited in several verses or ayah of the Qur'an as well as *Hadiths* of the prophet (*pbuh*).

Islamic microfinance is based on a preference for economic growth and prosperity of socio-political implements based entirely on Islamic concepts, and it follows the same principles as commerce, business, funding, and mortgages in Muslim communities. Microfinance principles are supported by Islamic ideals of equal opportunity, encouragement of entrepreneurship, risk sharing, release of collateral-free loans, and participation of the unfortunate.

There are numerous aspects of microfinance that can be considered congruent with the greater goal of Islamic banking, according to(Dhumale, A. 1999.). At its most basic level, the issuance of collateral-free loans in certain circumstances is an example of how microfinance shares broad goals. Seibel helped to strengthen this case (2005).

In this opinion, Islamic finance and microfinance appear to be shrouded in mystery in Muslim developing nations where banks, financial institutions, MFIs, and NGOsare heavily active in poverty alleviation. He further added that Islamic microfinance is gaining popularity since it is a highly adaptable technology whose models may be duplicated but must be tailored to the local socio-financial and cultural aspects. In nations where the majority of the population is Muslim, the potential need for tailored microfinance services goes substantially unfulfilled.(Saa, Microfinance and Prospect for Islamic Microfinance Products, March 2012).

The growth of Islamic microfinance is lagging behind the growth of Islamic financial institutions globally. Muslim scholars of Islamic law criticize Islamic banks for failing to support the socio-financial fairness of Islamic economics in Muslim society in Muslim countries. The development of Islamic microfinance should be supported because microfinance has two capabilities: monetary capability, which enables low-income societies to fund themselves and improve their financial status, and development institution, which enables societies to make progress and achieve long-term financial income stability. Thousands of Muslims around the world remain poor, and this must be addressed.

Somalis are among the global population affected by unemployment, insecurity, droughts, floods, inflation, and reduced corporate production. This was compounded by a lack of financial support from the government and other financial sources. Somalis have a remarkable cultural tradition of supporting one another through relatives or family members in any situation.

For example, after the collapse of the central government, many of the population migrated outside the country, to Europe, America, and Canada, with the hope of assisting their families who remained in the country. Diaspora people were also given opportunities to study and create jobs in the countries where they lived, with the hope that they would return after a while and establish businesses in various sectors of the financial markets, such as remittances, telecommunications, banks, real estate, and others, and many people in the country were given opportunities to work and earn at least a salary to cover their family's basic needs, such as health, education, and other necessities.

3.2 What Is The Difference Between Islamic and Traditional Microfinance?

However, Islamic microfinance adheres to the *Shari'ah* principle of *Riba* prohibition (interest). The concept of interest-free loans (*Qardul-hasan*) and the idea of mobilizing funds between finance seekers and fund businesses underpin Islamic microfinance (Tasmin, January 2016). The following are the primary differences between Islamic microfinance and its conventional counterpart: financing assets, financing methodologies, default handling, and repayment amount (Ahmed, 2002).

Unlike traditional microfinance, Islamic microfinance can take advantage of religious assets such as *waqf* and *zakat*, as well as use them as sources of funding (Ismail, March 2011). In addition to that, Islamic microfinance providers could lease *waqf* land and assets to those in need. In addition, Islamic beliefs might motivate non-secular debtors to consider debt repayment as a religious obligation (Ahmed, 2002).

Table 1: Illustration about Difference Among Islamic and Conventional Microfinance

Sources of endowment	exterior funds from investors’	religious donation
Savings	Donations like NGOs, savings	charity offerings as *waqf*,
Method of financing	cash	money endowment, land andother assets
Dealing with defaults	interest based punishment	free interest penalty
Repayment quantity	principal and interest	principle amount

However, because traditional microfinance uses interest-based rules, this approach will put pressure on the borrower to return the microfinance loans at the agreed-upon period, putting him in debt and maybe leaving him to his family.

3.3 African Islamic microfinance

Africa is the world's second largest and most populous continent, with a surface area of 30.2 million km2 and a population of 1,396,110,852 according to the most recent United Nations estimates. Africans account for 16.72 percent of the global population, with the majority of them being young. There are 54 worldwide nations, each with its own ethnic groups, languages, religions, traditions, and lifestyles. It is also the birthplace of the individual, the home of one of the earliest civilizations, and the location of beautiful geographical and tourism features. Despite the fact that Africa has abundant natural resources, a young population, and beautiful geography and weather, it is plagued by underdevelopment, corruption, illiteracy, conflict and political instability, a lack of good governance, and a poor financial sector.

As stated by ((Ali, January 2016) the mytghamr Savings Bank in Egypt was the first Islamic banking institution to open in the 1960s, followed by the Islamic Development Bank in Saudi Arabia and the Dubai Islamic Bank in the United Arab Emirates in the 1970s (Kahf, 1998). In the last four years, a tremendous amount of work has been done in the Gulf and Southeast Asian countries in terms of theory and practice. Despite the fact that interest-free finance has been documented in certain parts of the world, there is nothing written about its progress in Africa. As a result, measuring the country of interest-free banking in Africa is difficult due to the industry's newness and lack of statistics. Despite this, given Africa's large Muslim population, there appears to be a significant unmet demand for hobby-free financial products. According to a 2014 IMF report, the Muslim population in Sub-Saharan Africa (SSA) is expected to grow from 250 million people today to 386 million by 2030.

According to current estimates, Muslims account for 53 percent of Africa's overall population. According to (Faye Etta (2013), Islamic banking dominates the African Islamic market, yet Islamic banking carriers account for fewer than 10% of business banks operating in the 21 countries where Islamic finance is available.

Islamic finance is still limited in SSA, despite its potential given the region's demographics and ability to deepen its economy. As of the end of 2012, Africa has roughly 38 Islamic finance institutions, including business banks, funding banks, and *takaful* (insurance) operators. Twenty-one were in North Africa, Mauritania, and Sudan and seventeen were in Sub-Saharan

Africa. South Africa, with one of the largest global Islamic banking conglomerates, Al-Baraka Banking Group, pioneered the establishment of Islamic economic units in Sub-Saharan Africa in the 1990s. (1998) Kahf, Ahmad, and Homud Islamic banking is practiced in Botswana, Kenya, Gambia, Guinea, Liberia, Djibouti, Niger, Nigeria, South Africa, Mauritius, Senegal, and Tanzania. There is also room for progress in Zambia, Uganda, Malawi, Ghana, and Ethiopia, which, with the exception of Zambia, all have large Muslim populations. Zambia is interested in using Islamic finance to fund investment in the mining sector. In Uganda, the central bank has begun the process of revising its banking legislation to allow the establishment of Islamic banks, and three Islamic banks have asked for licenses to operate inside the Islamic financial institution. The following nations, particularly in Africa, have a strong potential to become a regional center for Islamic financial operations:

South Africa is the first Sub-Saharan African country to position itself as a prospective hub for *Shari'ah* compliant banking, despite its relatively tiny Muslim population. The Islamic Bank and Al Baraka, both part of the Saudi Arabian-based *Dallah* Al Baraka company, were the first Islamic banks to be awarded licenses by the South African Reserve Bank in 1989. Despite the fact that Islamic Bank was liquidated in 1998 due to corporate governance issues, Wes Bank introduced an Islamic window, Wes Bank Motor Vehicle and Asset Finance, in 2004, and was the first national bank to do so in deposits and transactional banking. ABSA, a banking organization, released an Islamic system in November 2005. Oasis Crescent Equity Fund, Symmetry Islamic Fund, Element Islamic Equity Fund, and *stanlibshari'ah* Equity Fund are some of the other Islamic financing organizations in South Africa (*Buksh*, 2006 and Gulf African Bank, 2010). South Africa plans to issue its first *Sukuk* Islamic bond this year in order to diversify its debt obligations.

Nigeria: Despite the fact that Nigeria has the biggest Muslim population in Sub-Saharan Africa, accounting for nearly a quarter of the country's 170 million people, Islamic banking remains undeveloped in the country.

Habib Bank (now Bank PHB) was the first bank to offer Islamic banking services (in 1992). With the promulgation of the Law Governing the Operation of Islamic Banks by the Central Bank of Nigeria (CBN) in March 2009, there was a fresh drive to expand Islamic banking. A Council of Experts for Islamic Finance has also been established by the CBN. The CBN released modern non-hobby banking criteria in June 2011 and granted a banking license to *Jaiz* International Bank, the country's first fully fledged Islamic financial institution, which began operations in 2012. Diamond Bank is also working on establishing an Islamic banking window.

Kenya: In December 2005, Barclays announced the availability of Islamic banking solutions in Kenya. The introduction of Islamic banks, First Community Bank in 2007 and Gulf African Bank (GAB) in 2008, lifted the zone. Kenya Commercial Bank, a regular bank, now offers *Shari'ah*-compliant products through unique Islamic house windows. The Kenyan government amended Section 45 of the Central Bank of Kenya Act in 2010 through the Finance Act, allowing the Central Bank, as the government's fiscal agent, to understand the fee of a return in lieu of interest on government securities, thereby opening up the range of *Shari'ah* compliant investments in the United States (Ndung'u, 25 November 2011.). Standard Chartered Bank opened an Islamic banking window in Kenya in 2013, complementing an existing window and two full-fledged Islamic banks in the country. As of the end of 2013, Islamic banking accounted for two percent of Kenya's total banking sector.

Mauritius: Islamic banking has been practiced in Mauritius since 1998, when the island's small Muslim community began receiving offerings from the Al *Barakah* Cooperative Society Limited, an Islamic cooperative credit union that provides tailored *Murabaha* schemes, Hajj saving debts, and *Istisna'* financing. In 2007, the Banking Act was amended to officially allow for Islamic banking activities, and amendments to the Finance Act 2008 were made to allow for multiple payments of responsibilities under the Islamic mode of financing land and property, as well as global investments and *Shari'ah* compliant budgets with a net asset value of US$75 million. Following that, in the first half of 2009, HSBC Bank Mauritius launched Islamic banking products, making it the first traditional financial institution to do so. In 2009, the Bank of Mauritius gave Century Banking Corporation an Islamic banking license, giving it the country's first fully fledged Islamic financial institution (as of December 2012, the bank has $9.3 million in assets, or less than 1% of total assets in the banking quarter).

Tata Asset Management (Mauritius) Private Limited (TAMM) launched the Tata Indian *Shari'ah* Equities Fund in October 2010 for investing in *Shari'ah* compliant equity or equity-equivalent indexing Indian companies. The Fund's domiciliation in Mauritius is the culmination of efforts by the Bank of Mauritius to establish the island as a *Shari'ah*-compliant focal point.

The expansion of Islamic finance can help to deepen the economy by increasing the depth and breadth of intermediation and thereby extending the system's reach (e.g. Extension of maturities and facilitation of hedging and chance diversification). Similarly, the considerably larger non-Muslim populace should find Islamic financial instruments appealing in increasing the number of available options, notably for SMEsand micro-credit. Furthermore, if new gadgets are stimulated by Islamic finance, but not always *Shari'ah* licensed, economic deepening and inclusion will be improved.

The majority of microfinance programs and actions in Africa are focused on sub-Saharan African countries. It is one of the world's poorest regions, with barely 5% to 25% of the population having access to financial services. Only 2% of the world's microfinance institutions are located in the region, making it substantially underserved. It began in Africa in 1986 and grew in strength by 1990. According to (Nanor, 5 August 2008), the microcredit movement originally spread throughout Africa in the 1980s, and the program grew stronger in the 1990s.

Since the 1990s, the microfinance sector has grown in prominence in Africa. (Buckley, November 17, 1966 – May 29, 1997)Conducted research on the microfinance industry in Kenya, Malawi, and Ghana; the author concluded that there was little evidence that microfinance has a significant positive impact on the expansion and growth of entrepreneurship in these African nations. Years later, Basu et al. (2004) found that the number of enterprises seeking microfinance assistance is small in comparison to those seeking deposit services.

According to (Carina Van Rooyen, March 2012), microfinance in Sub-Saharan African nations does not have the same positive impact on business growth and poverty reduction as it does in the United States; in some countries, microfinance causes more harm than good. According to (Carina Van Rooyen, March 2012), microfinance has negative consequences such as women being exploited or borrowers' children dropping out of school.

MFIs' efforts to work through group schemes have the potential to provide a wide range of benefits, leveraging the importance of African communities into schemes that have proven successful in other sectors, the most notable of which has been pioneered by the Grameeng Bank.

Institutional financial savings plans are beneficial to customers because they allow people to pool their resources and utilize them as a kind of protection against debts. The pooling of individual resources may also enable institution members to represent substantial collaterals and expand their credit options.

Using businesses and community-based companies at the establishment level, at the saving face, allows the accumulating institution to produce tremendous economies of scale. These schemes can assist in the development of institutions that can operate on a full intermediation basis rather than specializing in either gathering savings or lending.

Deposit mobilization provides a durable platform for expanding lending operations, as most credit score most effective businesses eventually reach a point where they are resource constrained. MFIs have the potential to progress to a less constrained market-based approach to controlling both sides of the balance sheet in the future. They might seek to sell better intermediation. As a result, deposit collecting institutions can help boost domestic financial savings mobilization at the macroeconomic level by tapping the assets of the poor who are otherwise cut off from the formal economy.

Finally, MFIs that serve organizations and groups may wish to enable deprived social constituencies to contribute more effectively to monetary development and poverty reduction by providing monetary services on both the deposit and loan sides. MFIs have traditionally concentrated on girls, but they may also gain other social agencies. MFIs, it could be argued, should serve as ideal ways for concentrating on such enterprises.

Cooperatives and institutions in Africa use individual and institutional financial savings and credit packages. "Village banking," a variation of the Grameen Bank concept that was originally introduced to Africa through K-REP (Kenya), is an excellent example of collective accord and the connection between saving and credit score tools.

This strategy, which is used in Tanzania by Catholic Relief Services and the SNV/Netherlands Development Program, mobilizes both share capital and financial savings deposits from individuals, sometimes with the help of donors. Loans are made to often contributing agencies, but they only get half of the benefits at a time and the other half only when the initial loans are repaid.

3.4 Somalia's Islamic microfinance

Somalia continues to face political and economic issues following a massive state collapse. Due to a lack of a functional financial structure, Somalia's financial system has been operating unofficially for the past two decades (M. Ibrahim Nor, January 2019). In 1993, the Said Foundation launched its microcredit program in Mogadishu, and in 1996, SAID received its first substantial funding injection from Oxfam America (SAID file, 2005). Salam Somali Bank has also launched a microfinance application to assist the victims of the 2010 Mogadishu earthquake (Salam Somali Bank Website, 2011).

While financial corporations have been working, it has been stated that traditional money transfer operators provide only basic financial services in the country, and that all international organizations and businesses operating in Somalia employ money transfer function techniques. *Dahabshil* Corporation was the first money transfer operator, founded in 1970 by remittance brokers selling items from Gulf States on behalf of rural communities in northern Somalia regions, but it is now an international company that works in both the remittance and banking systems. As a result, despite the political unrest and economic hardships, all remittance businesses, Somalia, for example, "Microfinance had not penetrated far in Somalia, according to the United States Agency for International Development [USAID] (2014), despite previous efforts using NGOs, because both microloans and grants were influenced with charitable help and perceived as grants, and the rate charged was not *Shari'ah* compliant. (Mohamud &Awale 2016), A lot of remittance companies are receiving funds for microfinance. As a result, there has been a microfinance provider operating in Somalia, providing small loans to Somalis (World Bank, 2019).

The first financial institution to provide microfinance was *Kaah* International Microfinance Services (KIMS), which provides microfinance and micro-savings to Somali micro and small businesses in compliance with *Shari'ah*, rules also *Dahabshiil* International Bank, Salam Somali Bank, Premier Bank, and several Microfinance Institutions are some of the most well-known MFIs. Several non-governmental groups, including as the Said Foundation and the

Zamsam Foundation, began providing microfinance services to the needy, although their coverage has remained limited and primarily limited to urban areas (Aden, 2011). As a result, one of the motors of financial development in Somalia is the ease with which a significant financial mover can approach the country. The impact of Islamic microfinance has been seen globally, particularly in Somalia, because most people are becoming more aware of the concept of Islamic microfinance and are willing to get into contracts with IMF organizations.

3.5 Role of Islamic microfinance in Somalia

In Somalia, Islamic financial institutions are less effective and efficient than the population expects, owing to inefficiencies in some aspects of their services, such as leasing (*ijarah*), bay al-*salam*, and Islamic microfinance. As a result, the role of Islamic microfinance in Mogadishu city has grown, and customers' understanding of different marketplaces has grown in recent years, making people brave to take IsMFas a result to hand over their business operational continuity in the future, even though there is less confidence among banks and consumers because banks' conditions to customers are more stretched on the people, which is why customers are usu. On the other hand, the surrounding conditions limited the ISMF's ability to improve its public services.

As a result, Islamic microfinance has played a minor role in Somali society since its inception, owing to the small number of people encouraged to enter this contract compared to other entrepreneurs who fund their businesses through various sources such as family, relatives, and debts owed to other institutions. Because there is less knowledge about the client's historical financial background and his honesty to repay the debt or the fund given to him, there is a lack of trust between banks and clients.

The second factor is the high rate of the IsMFimposed by the banks on the people who need to do this contract. The third factor is that the population has no equate understanding of what IsMFmeans, and there are opposing arguments in society about how the IsMFshould be used. On the other hand, the IMF's participation in combating poverty and unemployment in Somalia has not yet achieved the goals that the Somalis required.

3.6 Problems of Islamic Microfinance

In this global that we live in, there are many consequences that business institutions in the world may face, but the impact and form of challenges may vary depending on where the business is located. Challenges may become common, such as Covid-19, which influenced the global as a whole and felt its problems in every home in the world, but there are also specific influences that exist in every state in this global. Market dispersion, economic sustainability of Islamic financing, high transaction charges, and the success of Islamic microfinance in alleviating scarcity are the four major challenges that Islamic microfinance vendors confront, according to(Dean, October 2013Humanomics). On a large scale, these impediments mirror the issues faced by traditional microfinance products, as identified with Ahmed's relief (2002).

To remain financially viable, a microfinance organization must have high operating costs. However, as (Ismail, March 2011) pointed out, various Islamic microfinance offers no longer use all sources of funding to the business or Islamic financial procedure; in particular, spiritual endowment (*waqf* and *zakat*) can be incorporated into the sources of financial support for sustaining financially disadvantaged organizations.

Furthermore, microfinance companies are founded with the goal of assisting people who live in impoverished areas with a high unemployment rate, frequent natural disasters, or a difficult macroeconomic background (GIFR, 2016). When a whole population is on the verge of starvation, the microfinance provider's primary challenge is determining which type of commerce to support in such a situation ((Salleh, 2019).

However, there are a variety of challenges that businesses in Somalia may face, some of which are similar to global challenges and others which are unique to Somalia, such as tribal conflicts, draughts, floods, unemployment, political instability, and a lack of adequate financial resources for both government and private financial institutions.

The most significant challenges that microfinance institutions face range from borrowers' evasion risk and a lack of understanding of consumers' perceptions of microfinance to insufficient contributor funding, where microfinance institutions lack sufficient adequate capital to cover the needs of microfinance beneficiaries in order to assist those who require subordinate microfinance, thus the challenge.

In Mogadishu, the ease of understanding of microfinance services could be a well-thought-out difficulty to Small businesses due to the intense collateral obligation that MFIsmay impose a lot of conditions because of trust-based issues of the debt takers, lack of national documents of the customers such as passports or national ids, and agent who will be liable to debt instead of not paying the real debtor to the creditor, so if the customer has an agent, they can't However, it is widely acknowledged that MSMEshave unique problems that impede their growth and productivity, limiting their potential to contribute effectively to the country's long-term development.

4. SMEs And Its Role in Somalia

SMES's are classified as components of commercial businesses, and they require financial assistance to create and expand their company operations. They are also utilized for the operational property of commercial organizations. As a result, without financial resources, no firm can realize its objectives. SMES operational movement and various other commerce activities are supported by investment ((Chen, 2005).

As stated by (Pula, Defining Small and Medium Enterprises: a critical review, March 2015) It is sufficient to watch SMEs to recognize that there is no precise definition of them that can be used as a recommendation by all economies, statistics companies, or economic system researchers. Despite the lack of universality in the definition and the lack of organization in the categories, the result of the SMEs definition is undisputed.

The definition of small and medium businesses is crucial and useful. Because small and medium businesses are identified by adjectives of representative length, economists have a tendency to divide them into training groups based on a few numerical symbols.

The great diversity of workers is the most important general criterion to distinguish between large and small organizations (Hatten, (2011-04-27)). The European Union is the only one that functions well in SMES research, but it is still a long way from being adopted by country governments and politicians. Although not required in the EU, that classification is the most basic requirement for institutions and organizations seeking assistance from it ((jones-evans, April 2009)).

According to a World Bank study published in the book MSMB Country Indicators internationally known, 46 of the 132 worldwide locations examined define SME as businesses with fewer than 250 employees (Kushner, (2010).) However, each country has the freedom to define SMEsin its own way, resulting in today's SMES concept having a staggering number of meanings.

SMES investment refers to the capitalization of small and medium-sized firms, and it is a key feature of the general business investment market. Bank loans and overdrafts, leasing and rent-to-own arrangements, and high-purchase, equity or corporate bond issuance; project capital or private equity asset-based finance; and government participation in the form of grants or loans are all sources of capital in the commercial enterprise finance market. For their development, continuous existence, and future expansion, SMEsmust gain precise access to acceptable sources of financing.

Even while SMES bank access has improved significantly since the financial crisis, long-term issues such as sequence asymmetries, high operational costs, and a lack of economic skills and knowledge among small business owners persist. Furthermore, the ability to fund devices other than through immediate loans is typically undeveloped. Micro businesses, new initiatives, and corporations that are still in their infancy are more likely to face difficulties in obtaining financial assistance.

4.1. African SMEs

According to (Hisrich, (2000), Sub-Saharan African countries have a large number of SMEsthat contribute to economic growth. In terms of the number of SMEs, there is a significant variance between areas and foreign locations. The disparity between countries in Sub-Saharan Africa is wide, and statistical uncertainty is substantial. The variety of SMEsis highly dependent on how they are defined and whether or not the informal finance system is included.

The reason for this tendency could be due to reduced economies of scale on a national scale in smaller domestic markets. SMEsin the formal sector generate less than 20% of gross domestic product in most African countries. Lucas (1978) shows that the move toward offers has been widespread, with significant growth in many carrier areas in most nations in the region.

Similarly, small and medium businesses, sometimes known as SMEs, are at the heart of Africa's encouraging expansion. Small and medium-sized enterprises (SMEs) account for more than 90% of all business operations in Sub-Saharan African countries (Muriithi, 2017).Hatega, 2007; Kauffmann, 2005). As a result, it was fantastic that SMEs' business activities were full superior enormous given their circumstances to eliminate poverty and improve their business activities in African countries, as well as create employment benefits for the majority of the population in various African countries (Chu, 2012). Apart from being a source of money or profit and employment, the SMES sector is crucial because of its simple techniques in response to the majority of Africans' desires in the course of offering inexpensive things and donations at reasonable provisions and expenses (Kauffmann, 2006).SMES firms in African countries sustain more than 90% of the population and construct donations of 50% or more to increase financial earnings and Gross National Product (GDP) ((Fjose et al. & Kamunge, 2014).

4.2 SMES in Somalia

Somalia is one of the least economically developed countries in the world, having one of the highest unemployment rates. As a result, throughout the last two decades, due to lingering civil conflicts, instability, and a lack of institutions in the country. As a result, planning and development of both human and financial resources were insufficient.

Small and medium enterprises (SMES) are a type of business firm in Somalia that refers to businesses that are easier to set up than large corporations. On the other hand, the capital investment they require is vastly different, and the number of people required to work varies from 2 to 9 depending on daily activities; however, their existence is dependent on how they obtain financial investment through Islamic microfinance and other financial funds.

The majority of MSMEsin Mogadishu have traditionally operated in nature and have not relied on skills and other knowledge based on numerical SMES in the city's markets, while numerous small and medium businesses are active in the contributions sector to the handling of society through the large number of microenterprises and their influence in the city, but there are informal issues in the environment that are concerned about the city's continuity. It was predicted that the city of Mogadishu's financial issues would be alleviated as the rate of establishing SMES businesses in different parts of the metropolis increased.

Because most informal firms are owned by a single person to meet the needs of his family, progress for the growth and formalization of firms is controlled in the hands of the management duo due to a lack of their poor economic issues and also inadequate infrastructure, forced no to get right of entry to financial markets, insufficient infrastructure and job locations, and other factors. It is also important to note that people in the informal economic system lack the training and abilities to continue their businesses and anticipate future challenges, which has a negative impact on their productivity and ability to meaningfully contribute to the growth of their businesses and the Somali economy. As a result, SMEsare increasingly being operated by everyone, including educated and uneducated, despite the fact that the end result is superior in this business. At the same time, as if this wasn't enough, SMEsrequire lesser amounts of capital to get started. This has to be one of the reasons why so many uneducated Mogadishu city businesspeople are concerned about the section.

4.3 Role of SMES in Somalia

SMES plays a significant role in Mogadishu society because they contribute to survivalist and establishment jobs, as well as community work changes. Without SMES, the entire country would have suffered negative consequences due to a lack of jobs, but its existence encourages the population to improve their livelihood and achieve their goals in the future.

Recognizing the critical importance of small enterprises in the Somali economy, the UN Development Program, as reported by the Economic Foundations, envisions MSMEsbeing intensified and converted into major industries of the future by enhancing output and modernization through small company subsidies (UNDP, 2013).

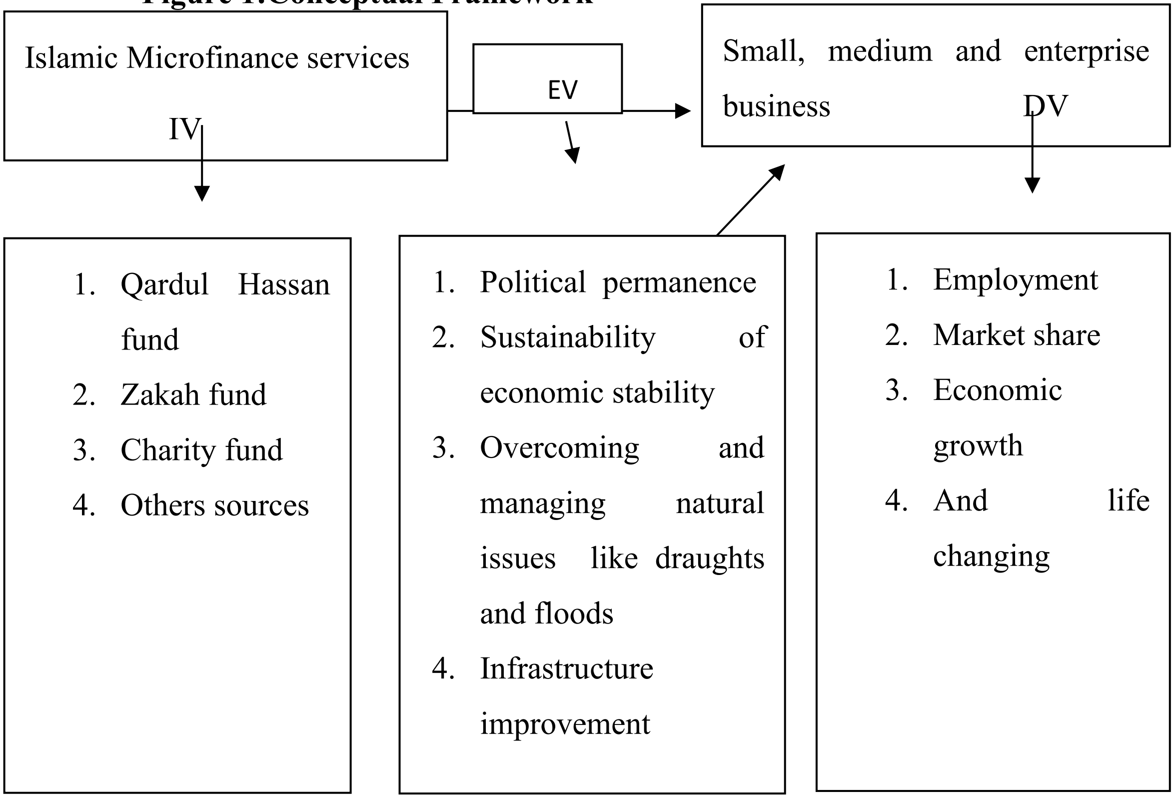
The function of SMEs in Somalia Mogadishu is viable and the backbone of the country's economic position; their continued existence would build a survivalist area of life and assist people's everyday activities and market income growth. The SMES, on the other hand, was the key business source that branched off from the country's large corporations.

4.4 Relationship between SMES and Islamic Microfinance

Small and medium-sized businesses (SMEs) are essential sources of economic growth and employment creation, not just in industrialized nations but also in developing and emerging economies (Cabbar, 2000). On the other side, there may be a significant reduction in the creation of new jobs.

As a result, employment increases. Another essential point to emphasize is that capital investment can be used to replace staff. In other words, there is an inverse relationship between capital investment and employment growth, and as a result, property is another essential metric of growth. SMES business operations are very significant and cornets or backbones in Somalia's social lives since they help the country survive its bad economic challenges. Furthermore, SMES will provide various opportunities for the population to create work.

Figure 1:Conceptual Framework



As a result, the absence of SMES in the markets will be equivalent to a human being without a head, implying that there will be no life without SMES, because achieving economic sustainability begins with SMES and establishing brave entrepreneurs in the marketplaces, despite the fact that they may face obstacles such as environmental issues such as floods, draughts, clan wars, and so on. The second difficulty is that small business entrepreneurs lack expertise and skills, as well as financial backing.

As shown in Figure 1, Islamic microfinance is defined as a financial institution that provides services such as *Qardul-Hassan*, *zakah*, and charity funds that have a direct impact on SMES business operations, growth, and sustainability in the future in order to achieve the nation's main goal of economic development. As a result, the relationship between Islamic microfinance and SMES business operations may be possible if IsMF services are tailored to meet the needs of the population as well as the value to society; otherwise, IsMF benefits will be non-existent.

Most SMES activities in Somalia rely on funds from their own families and relatives because charity funds that are allocated to help poor people are rare, whereas the *zakah* fund is a seasonal fund that is given to the needs at *zakah* time by rich people to poor people, whether they are relatives or not. *Qardu-lHassan* is also present in the country, but its influence on the marketplaces or SMES operations is limited because it is very uncommon.

Conclusions and Recommendations

This article discussed the impact of Islamic microfinance on small and medium enterprises, with a focus on the effects of Islamic microfinance on society and supporting SMES operations in Mogadishu, Somalia. In recent years, the Somali populace has recognized the relevance of the IMF and has attempted to create Islamic microfinance programs in order to benefit society.

I discussed the role and challenges of implementing IMF programs, as well as how we can bring programs and supporting tools to SMEs. I also mentioned that there are some microfinance programs, as well as what is known as *qard* al-Hassan, and that there are some charity foundations in different parts of the country, such as *Zamzam* Foundation and *Hormud*

Foundation, as well as some business SMEs. My recommendation is to obtain well-prepared government institutions and learn how to build a special agency for Islamic microfinance programs, as well as to obtain private agencies that will participate in supporting programs and adopt the institutions that will serve in these programs, in order to reduce the rate of poverty and poorness and to ensure the population's development, as well as to prevent flood damage before rivers because Farmers' encouragement will help to alleviate the effects of droughts, which occur every year in some parts of the country, causing massive damage to the population.

Overall, the projects will result in the creation of modest jobs, which is critical in the country's society, particularly in Mogadishu. The gap is that there is no clear picture of Islamic microfinance and its impact on small and medium businesses, despite the fact that there is a great need in society to address poverty and poverty among the population by teaching them about the benefits of Islamic microfinance programs and their interdependence with SMES business groups in the country. The government is also expected to participate in the processes leading up to the development and support of the IMF program, as well as prior to the strengthening of SMES activities to assist them in obtaining financial investment funds.

On the other hand the people of business owners are needed to learn about Islamic microfinance and Islamic financial institutions rules and regulations so as to improve or implement and change their financial assistance needs in the future to get chances to develop the progress of the continuity of their business activities for the reason that without knowledge about Islamic banks and financial institutions will be impact or challenge to their own business endeavors and hopes of decreasing unemployment and financial stability of the nation. Therefore, the development and progress of the small business depends on how they get the financial support from the public and private institutions and those steps will end result of the development of the nation as a whole in the future.

Study Limitations

Because Islamic financial institutions are new in the country, the services they offer to the community are very limited, as I heard from the staff of some banks in my questionnaires seeking information about the instruments off, there are potential limitations in conducting and implementing this study, which include misunderstanding and lack of providing accurate information about the ISMF, lack of pertinent and exhausted related research works on this topic, And lack of relevant and exhausted related research works on this topic. Another key limiting aspect to consider is the study's subjects. Due to the high sensitivity and versatility when it comes to finance matters, especially this time around, the majority of participants does not have a clear understanding of the objectives of the study of Islamic microfinance and thus do not provide you with accurate information. There is also an inherent risk of extreme reservations and observation in full participation of the seeking data about the topic, if any.

The focus of this research is limited to evaluating the opportunities and challenges of Islamic microfinance in Somalia, with Mogadishu City as the study's survey participants. In addition to the established financial and economic theories from secondary sources, the study will only incorporate data acquired from study participants via questionnaires that will be provided and administered to them.

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