The Impact of Islamic Microcredit on Economic Development of Women in Somalia

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Abstract

Islamic financial institutions are obliged to adhere to Shari’ah principles, which promote ethical financial transactions. These institutions prioritize not only their business concerns but also strive towards broader socio-economic development objectives. Microcredit services play a crucial role in facilitating the achievement of these goals and aligning with the overarching Shari’ah objectives. The purpose of this research is to scrutinize the impact of Islamic microcredit on the economic advancement of women in Somalia. To explore the correlation between microcredit provision and women’s economic progression, a correlational research design was selected as an appropriate approach. Primary data collected from 135 respondents were then subject to analysis using SPSS software. Substantive evidence emerged suggesting a substantial positive association between microcredit services and women’s economic development. Consequently, our findings demonstrate that both microcredit provision and overall economic progress exhibit statistically significant positive effects on the economic advancement experienced by women within Somalia. The research findings suggest that a higher degree of adoption of microcredit services has the potential to enhance women’s financial status, self-assurance, and improve their chances for uplifting themselves from poverty. Consequently, these outcomes can contribute to the overall progress and well-being of society as a whole.

Keywords: Islamic finance, microcredit, microfinance, women empowerment, economic development, poverty, Somalia

1. Introduction

Microcredit serves as a potent tool in facilitating community development, bolstering economic growth, and empowering women and youth, especially within developing nations. Presently, both government entities and financial institutions are initiating programs with the aim of fostering female economic development while simultaneously promoting social empowerment (Kulmie & Omar, 2024; Khandkar & Chowdhury, 1996). The success of these initiatives has played a pivotal role in alleviating poverty and establishing long-term sustainability (Chowdhury, 2004). Notably, microcredit services have had notable impacts on fostering women entrepreneurship, stimulating job creation, and generating income in numerous countries (Al-shami et al., 2021). This engenders increased productivity among women while also cultivating self-reliance and enhancing effective financial inclusion (Afrin et al., 2008; Kulmie et al., 2023). The primary objective of microcredit services is to cultivate self-employment opportunities for those who are unemployed, particularly women, with the aim of enhancing their quality of life (Afrin et al., 2008), generating income, and promoting the development of their households (Hilif, 2024; Nor, 2024; Hulme & Mosely, 1998). Furthermore, these programs encourage women to establish a source of income and accumulate capital (Afrin et al., 2010). Development experts and policymakers regard microcredit services as a tool for poverty alleviation and the empowerment of women and youth. This is due to its ability to promote financial inclusion which ultimately leads to increased social integration and economic progress for women (Pradipta & Kalachand, 2016).
Financial institutions play a fundamental role in enhancing the livelihood, health, and business of communities. Islamic financial institutions, operating within the framework of Shari’ah principles and guided by fatwas issued by esteemed Muslim scholars (Kulmie et al., 2023; Sole et al., 2007), actively pursue their social and economic goals through comprehensive services accessible at all levels of society (Kulmie, 2023). These institutions establish Shari’ah Advisory Boards to ensure adherence to Islamic principles and promote ethical financial transactions. Moreover, they are committed not only to addressing their own commercial concerns but also to fostering broader social and economic development (Sole et al., 2007). Islamic financial institutions employ various strategies, including profit-sharing structures, profit and loss methods, profit margin mechanisms, and other fundamental approaches to achieve their broader goals. These diverse methods are aimed at satisfying both societal and business needs, encompassing corporate or project financing, investing activities, assisting small and medium enterprises as well as entrepreneurial finance. Furthermore, non-interest-bearing loans are also offered by Islamic financial institutions (Kulmie et al., 2023). According to Rahman’s observations in 2007, Islamic microcredit plays a pivotal role in enhancing the socio-economic development of women. It serves to empower them by offering interest-free credit opportunities and improving access to financial services for the marginalized population. Notably distinct from conventional forms of microcredit services exist within an Islamic framework (Rahman, 2007).

Islamic microcredit is an instrument that adheres to Shari’ah principles, ensuring its compliance with ethical guidelines by prohibiting interest and other illicit elements. Its primary objective is to provide assistance to the youth, women, and vulnerable individuals in society. In contrast, conventional microfinance operates based on interest-based principles, while Islamic banking principles are grounded in the absence of interest. An integral aspect of the Islamic finance approach lies in its profit sharing and profit-loss sharing (PLS) principles, fostering a sound relationship built on financial trust between both borrowers and depositors. Conversely, conventional banking treats money as a tradable asset capable of being exchanged at a premium or lent out for gain. Within Islamic banking practices, however, money is not regarded as a commodity; rather it serves as a medium for exchange and preservation of value. However, microcredit services are employed as a resolution or instrument for the eradication of poverty and the enhancement of income levels by motivating individuals to establish their own businesses (Ahmad et al., 2010). The World Bank (2019) acknowledges and highly values Islamic microfinance in Somalia as an effective tool for generating self-employment opportunities, particularly for women, and elevating their living standards while contributing to socio-economic advancement. Additionally, local financial institutions and International Development Agencies have joined forces to offer modest loans and support microenterprises with the aim of empowering women (Xalane et al., 2019). Numerous countries such as Bangladesh, Saudi Arabia, Indonesia, Yemen, Malaysia, and Pakistan have implemented microcredit programs to facilitate female entrepreneurship and enhance household incomes and consumption patterns (Al-shami et al., 2021; Puhazhendhi & Badatya 2002; Navajas et al., 2000; Hossain et al., 1992; Khandkar & Chowdhury, 1996).

2. Conceptual and Empirical Review

2.1 Overview of Islamic Finance

Islamic finance is a financial system that is based entirely on the principles of Shari’ah and exclusively deals with products, services, and transactions that are compliant with these principles (Xalane et al., 2019). Islamic financial institutions, guided by Islamic law, have an obligation to conduct their business operations in an ethical manner while also addressing societal needs (Xalane et al., 2019). At present, the Islamic finance industry stands as one of the rapidly growing sectors within the global financial system (Xalane et al., 2019). This industry provides a wide array of Islamic financial services in both Muslim and non-Muslim countries (Kulmie et al., 2023; Kulmie, 2024; Kulmie et al., 2024) and holds significance within national financial systems (Kulmie, 2023). The implementation of these programs plays a pivotal role in promoting community well-being, employment opportunities, and economic growth by adhering to Islamic ethics and values. These fundamental values permeate all aspects of society economically, socially, and politically (Samura, 2016). According to Chong et al. (2009), Islamic banks are permitted by law to engage in business transactions, with the caveat that they abstain from dealing with prohibited activities such as alcohol, pork, tobacco, and gambling. Furthermore, it is worth noting that the Islamic financial system actively promotes principles of ethical business conduct and equitable investment practices in order to foster inclusive economic development and social justice (Iqbal, 1997).

2.2 Microcredit Concepts

The concept of microcredit is relatively new and emerged after the 1970s (Yunus, 2003). It has since evolved as a part of a paradigm shift in development thinking (Qudrat-I & Lutfur, 2006). Microcredit refers to the practice of providing small loans to individuals for the purpose of starting or expanding a small business. In addition,
when women participate in microcredit programs, it leads to increased engagement, improved income levels, and promotion of socio-economic development (Chестon & Kuhn, 2002). Furthermore, research findings demonstrate that microcredit activities make significant contributions to real economic growth. These programs play a vital role in promoting community well-being through business practices and empowering individuals (Kassim, 2016). However, it should be noted that while microcredit approaches aim to reduce poverty and promote community development, poverty alleviation remains one of the major goals for developing countries seeking to establish their individual businesses (ICDF Annual Report, 2002).

According to Drolet (2010), small business activities have contributed to sustainable economic expansion. The provision of microcredit services not only encourages and supports job creation for the impoverished, but also enables them to build savings, achieve self-sufficiency, establish a source of income, and accumulate capital in order to improve their living conditions (Drolet, 2010). Various studies have shown that microcredit initiatives play a significant role in socio-economic development by providing capital to poor entrepreneurs through financial institutions (Ali et al., 2016). Furthermore, these initiatives mitigate poverty challenges faced by women and promote sustainable development as well as economic and psychological empowerment for women by enabling them to start their own businesses (Ali et al., 2016).

2.3 Economic Development

The pursuit of economic development entails the attainment and maintenance of long-term, sustainable growth with the aim of enhancing the quality of life for individuals (Ibrahim et al., 2010). The establishment of full employment and equitable distribution plays a central role in policy-making and developmental initiatives geared towards economic advancement (Hassan & Zubair, 2005). The notion of economic development typically encompasses indicators such as poverty rates, life expectancy, and literacy levels (Kulmie et al., 2023). A well-functioning economic system offers a framework for community-based opportunities and contributes substantially to tangible economic expansion and self-sustaining business activities (Ackon et al., 2020). Islamic approaches to economics emphasize industrial progression and socio-economic empowerment through entrepreneurship in nations following Islamic principles (Zapalska et al., 2017). This theoretical framework has played a crucial role in promoting Islamic entrepreneurship within economic endeavors and improving human welfare through adherence to Shari’a principles (Ibrahim et al., 2010). Unemployment, poverty, and inequalities pose significant socio-economic challenges that can lead to violent crime and enduring social hardships in various African countries, such as Somalia, Nigeria, and Ethiopia (Presler-Marshall et al., 2022; Kulmie, 2023; Ajufo, 2013). Additionally, economic policies and financial institutions hold paramount importance in fostering economic growth and achieving sustainable development.

2.4 Related Previous Studies

In recent times, governments and development institutions have increasingly utilized microcredit programs as a means of promoting economic development. Numerous studies have been conducted to assess the effectiveness of these initiatives in improving the economic conditions of vulnerable communities, women, and young individuals. Ali et al. (2016) conducted an extensive examination on the significance of microcredit in alleviating poverty and fostering sustainable development across Asia, Africa, Latin America, and Europe. Through their analysis of various microfinance and microcredit schemes, they identified several challenges faced by both borrowers and lenders that hindered their success; such challenges included high transaction costs, time constraints, requirements for collateral or guarantees from borrowers, limited availability or inadequacy of programs offered by financial institutions, governmental interventions in program implementation processes, political crises within society that impacted access to credit services, social divisions among groups based on socio-economic status and occupational segmentation within workforces. Most significantly perhaps was their argument that poverty eradication could be better achieved through improvements made to the design of these programs themselves. The researchers posited that divergent assessments of microcredits exist, with some investigators drawing on women’s life outcomes to yield positive results and others relying on loan procedures to consistently reveal negative ramifications. The authors contended that solely utilizing empowerment measurements is inadequate and deceptive as it overlooks the contextual milieu. Consequently, evaluations predicated solely on outcomes will fail to facilitate policymakers in devising superior policies and strategies. Ultimately, the researchers concluded that assessments of microcredit ought to encompass a broader scope beyond mere outcome evaluation, highlighting the significance of considering other dimensions.

Afrin and colleagues (2008) conducted an examination of the role of microcredit in fostering women’s entrepreneurship development in Bangladesh. Using multivariate analysis technique and structural equation modeling, the researchers found that there is a significant positive relationship between the financial capacity
and skills of female borrowers with their success as entrepreneurs. This study also determined that microcredit initiatives have a positive socioeconomic impact on rural women borrowers. Farooqi and Qamar (2017), on the other hand, investigated the effects of an Islamic microfinance scheme on poverty alleviation and well-being of women. Through regression analysis and correlation of cross-sectional data, this study discovered that an increase in women’s revenues and resources significantly contributes to advancing their financial independence, freedom, and sense of self-possession. The research also demonstrates that microfinance has a considerable and positive impact on the monthly income of individuals who borrow. In their study, Nisser and Ayedh (2017) investigated the role of microfinance in empowering women. The objective of their research was to assess the significance of microfinance in contributing to the empowerment, development, and socio-economic advancement of women. Findings indicate that empowering women is vital for promoting their self-assurance and fostering socio-economic progress. The article recommends that involving women in microfinance services is crucial for advancing their empowerment both socially and economically.

In their research, Pitt and Khandker (2003) examined the impact of micro-credit on the empowerment of women. For their study, they utilized data sourced from a household survey conducted in 1998-99 by the Bangladesh Institute for Development Studies (BIDS), in partnership with the World Bank. The results divulged that participation in credit programs resulted in women gaining enhanced access to both financial and economic resources, as well as increased social networks and bargaining influence. Shafique and Siddique (2020) undertook an empirical investigation into the effects of microcredit funding on poverty reduction and women’s empowerment. The researchers affirmed that microfinance lending has attained considerable significance in present-day society, as it aids individuals in commencing their own businesses, generating employment opportunities, establishing dependable streams of income, and most notably involving women in diversified earning prospects through the provision of microcredits that foster financial independence. Their study conclusively demonstrated that microfinance plays a pivotal role in eradicating poverty while concurrently empowering women.

3. Methodology

3.1 Population, and Sample

The objective of the study was to examine the impact of Islamic microcredit services on the economic advancement of women in Mogadishu, Somalia by focusing on Salaam Somali Band. A correlational research design was applied by the researchers to investigate the relationship between various microcredit services and the economic development of women in Mogadishu, Somalia. A total sample size of 152 individuals was chosen from a population of 250 participants. However, only 135 respondents were accessible for data collection which yielded a response rate of 88%. Respondents were selected using purposive and simple random sampling techniques. Data was obtained through the utilization of self-administered questionnaires. The study results were presented through the utilization of frequency tables and percentages. To establish the correlation between various study variables, Pearson’s correlation was employed. The research findings, which were derived from analyzed responses, disclosed information regarding the impact of microcredit on the economic development.

3.2 Data Collection and Analysis

The research utilized primary data to assess the impact of Islamic microcredit services on the economic development of women. The study referred to a previous work by Sanders et al. (2009) which emphasized the importance of questionnaire validity, i.e., the extent to which a questionnaire accurately measures what it is intended to measure. The researchers created a questionnaire and submitted it for evaluation by their experts, who reviewed its contents. Subsequently, a content validity index (CVI) was calculated by dividing the number of appropriately selected items in the questionnaire by the total number of items included. Therefore, a content validity index of 0.85 was indicating that the instrument possessed sufficient validity as proposed by Amin (2005). Also, the of the instrument was tested utilizing the Cronbach Alpha Method, and the Cronbach’s Alpha Coefficient is 0.912, which shows that the instrument is reliable. The primary data was analyzed by using Statistical Package for social Science (SPSS) Software to determine the relation between these two variables.

4. Results and Discussion

4.1 Demographic Information

According to the results in Table 1, men made up most respondents (79.26%), with women making up 20.74% of the total. This gender gap is attributed to a number of things, including cultural beliefs and social norms. The table 1 also reveals that respondents who were 46 above years old (7.41%)made up the majority, while respondents who were 31 to 45 years old (61.48%) came in second. A total of 31.11% of respondents were
between the ages of 18 and 30. According to the results of the educational level, 25.93% of the participants had diploma, 44.44% had Bachelors, and 11.11% had Masters, and 18.52% had Others. Table 1 demonstrates that the participants in this study possessed a satisfactory level of literacy and exhibited heightened competence in comprehending and assessing the various components of the questionnaire (Blair, 2013; Martin, 2006; Uma, 2000).

Table 1. Demographic Information

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency and Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Male: 107 (79.26%), Female: 28 (20.74%).</td>
</tr>
<tr>
<td>Age</td>
<td>18 – 30 (42, 31.11%), 31 – 45 (83, 61.48%), 46 – above (10, 7.41%).</td>
</tr>
<tr>
<td>Education level</td>
<td>Diploma (35, 25.93%), Bachelors (60, 44.44%), Masters (15, 11.11%), Others (25, 18.52)</td>
</tr>
</tbody>
</table>

Sources: Authors’ own.

4.2 Effects of Islamic Microcredit on Economic Development of Women

The primary objective of this study was to analyze the impacts of Islamic microcredit on the economic development of women in Somalia. The empirical analysis yielded results that demonstrate a significant correlation between microcredit and the economic development of women \( r = 0.722, p < 0.05 \). This indicates that microcredit has a statistically positive effect on enhancing the economic development of women, as evident from Table 2. These findings are supported by most respondents who expressed agreement with the notion that microcredit can contribute to their economic advancement. Consequently, the expansion of Microcredit implementation is expected to further boost the economic development of women.

Table 2. Correlations between microcredit and economic development of women in Mogadishu

<table>
<thead>
<tr>
<th></th>
<th>Micro Credit</th>
<th>Economic Development of Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>.722**</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>135</td>
<td>135</td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>.722**</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
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<tr>
<td>N</td>
<td>135</td>
<td>135</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).

Moreover, the data presented in Table 3 reveals that the microcredit beta rating stands at 0.722. The outcomes of the investigation suggest that a rise of 100 percent in microcredit is projected to result in a corresponding increase of 72.2 percent in economic advancement of women. It should be noted that this progress can only be observed if Shari’ah banks extend adequate funding to their clients through a microcredit facility, taking into account their entrepreneurial expertise and proficiency.

Table 3. Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>1.624</td>
</tr>
<tr>
<td></td>
<td>Micro Credit</td>
<td>.612</td>
</tr>
</tbody>
</table>


The findings presented in Table 3 demonstrate that the beta value of microcredit was determined to be 0.722. Consequently, it can be inferred from these results that a 100-percentage increase in Islamic microcredit is apt to enhance the economic development of women in Somalia by approximately 72.2 percent. These findings are consistent with the research conducted by Adugna and Heidhues (2000), as well as Ong, Lu, and Featherstone (2010) who emphasized the significance of credit accessibility in enhancing the productive capacity of rural households. This has important implications for increasing household income and employment opportunities.
Furthermore, Khandker’s study (2006) highlighted that access to microcredit services plays a crucial role in reducing poverty, particularly for female participants, and contributes to overall poverty alleviation at a village level. The results of the study were consistent with the findings of kiriti and sakwa (2014), who noted that credit presents prospects for self-employment as opposed to relying on job creation. Additionally, it emancipates individuals in poverty, including both impoverished individuals and women, from their current circumstances. Provided one has access to credit within an appropriate institutional framework and arrangement, one is able to excel in what they do best and generate income as a result. This allows them to break free from poverty and have control over their own future, becoming instrumental in driving positive change not only for themselves but also for society at large.

5. Conclusion and Recommendation

In pursuit of this objective, the researchers aimed to ascertain if microcredit services hold any significant statistical impact on the economic progress of women in Somalia. The research findings have unveiled a statistically significant effect of microcredit services on the economic development of women in Somalia. This result was based upon an analysis employing Pearson correlation which demonstrated a pronounced positive relationship between the two variables (r 0.722, p 0.05). According to the study’s findings, it is recommended that:

- Islamic Banks should extend microcredit services to poor people particularly women by removing restrictions to ensure their access and enhance their financial inclusion.
- Financial institutions should increase public awareness towards microcredit services and align them into poverty reduction mechanisms for poor people.
- These institutions should ensure that microcredit programs compensate for the inadequacies of regular financial institutions by offering small loans different from the traditional methods and requirements.
- Policy makers and relevant government institutions involved in shaping economic and development policies should promote microcredit mechanisms and dealt it as a tool that realizes better accessibility of finance that eventually increase equality and justices among communities.

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