ISTANBUL TICARET UNIVERSITY

GRADUATE SCHOOL OF FINANCE

MASTER OF INTERNATIONAL FINANCE

IMPACT ANALYSIS OF CONVENTIONAL AND ISLAMIC MICROFINANCE ON POVERTY ALLEVIATION IN SOMALIA

Master's Thesis

YUSUF ABDI ADEN

200017087

Istanbul, 2022

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ABSTRACT

Poverty has remained a global challenge across the continent as a significant proportion of the population is living within the internationally established poverty line. However, the empirical results provide inconclusive, mixed and contradictory results of negative and positive nexus between microfinance and poverty alleviation. The specific objectives of the study were: to determine the impact of Islamic microfinance services on poverty alleviation in Somalia; to establish the impact of conventional microfinance services on poverty alleviation in Somalia and to analyze the statistical difference between the impact of conventional and Islamic microfinance services on poverty alleviation in Somalia. These objectives supported the development of null hypotheses. The financial intermediation theory as well as the poverty theory provided anchorage to the study. The study targeted 750 active clients staying in Mogadishu Somalia from the conventional and Islamic microfinance institutions. Stratified random sampling was used to select 260 respondents. Information was obtained from primary sources guided by the questionnaire and the analysis was done through means and standard deviations, regression and one sample t-test and the findings presented through tables. The study established that Islamic microfinance services (β=.811, $p<0.05$) and conventional microfinance services (β=.649, $p<0.05$) had significant impact on poverty alleviation. Furthermore, there was no statistical difference in the impact of conventional and Islamic microfinance services on poverty alleviation in Somalia ($p>0.05$, $t<1.96$). The study concludes the both microfinance institutions exert significant impact on poverty alleviation in Somalia irrespective of whether they are Islamic or conventional. The study recommends that the credit managers of the microfinance institutions in Somalia should ensure there is equality in access to microcredit, micro savings and micro insurance savings among male and female clients. The marketing managers of the microfinance institutions in Somalia should increase more awareness for more customers to take MFI services especially those in rural and remote areas

Key Words: Microfinance Institutions, Islamic Microfinance Services, conventional microfinance services, poverty alleviation

OZET

Nüfusun önemli bir kısmı uluslararası olarak belirlenmiş yoksulluk sınırı içinde yaşadığından, yoksulluk kıta genelinde küresel bir sorun olmaya devam ediyor. Bununla birlikte, deneye dayalı sonuçlar, mikrofinans ve yoksulluğun azaltılması arasındaki negatif ve pozitif bağın sonuçsuz, karışık ve çelişkili sonuçlarını vermektedir. Çalışmanın özel hedefleri şunlardı: İslami mikrofinans hizmetlerinin Somali'deki yoksulluğun azaltılması üzerindeki etkisini belirlemek; geleneksel mikrofinans hizmetlerinin Somali'deki yoksulluğun azaltılması üzerindeki etkisini belirlemek ve geleneksel ve İslami mikrofinans hizmetlerinin Somali'deki yoksulluğun azaltılması üzerindeki etkisi arasındaki istatistiksel farkı analiz etmek. Bu hedefler, boş hipotezlerin geliştirilmesini destekledi. Finansal aracılık teorisinin yanı sıra yoksulluk teorisi de çalışmaya dayanak sağlamıştır. Çalışma, geleneksel ve İslami mikrofinans kurumlarından Mogadişu Somali'de kalan 750 aktif müşteriyi hedef aldı. 260 katılımcıyı seçmek için tabakalı rastgele örnekleme kullanıldı. Bilgiler anket rehberliğinde birincil kaynaklardan elde edilmiş ve ortalamalar ve standart sapmalar, regresyon ve tek örneklem t-testi ile analiz yapılmış ve bulgular tablolarla sunulmuştur. Çalışma, İslami mikrofinans hizmetlerinin (β=.811, $p<0.05$) ve geleneksel mikrofinans hizmetlerinin (β=.649, $p<0.05$) yoksulluğun azaltılması üzerinde önemli bir etkisi olduğunu ortaya koymuştur. Ayrıca, Somali'de geleneksel ve İslami mikrofinans hizmetlerinin yoksulluğun azaltılması üzerindeki etkisinde istatistiksel bir fark yoktu ($p>0.05$, $t<1.96$). Çalışma, her iki mikrofinans kuruluşunun, İslami veya geleneksel olmalarına bakılmaksızın, Somali'deki yoksulluğun azaltılması üzerinde önemli bir etkiye sahip olduğu sonucuna varıyor. Çalışma, Somali'deki mikrofinans kurumlarının kredi yöneticilerinin, erkek ve kadın müşteriler arasında mikro kredi, mikro tasarruf ve mikro sigorta tasarruflarına erişimde eşitliği sağlamasını önermektedir. Somali'deki mikrofinans kuruluşlarının pazarlama yöneticileri, özellikle kırsal ve uzak bölgelerdeki daha fazla müşterinin MFI hizmetlerini alması için daha fazla farkındalık yaratmalı.

Anahtar Kelimeler: Mikrofinans Kuruluşları, İslami Mikrofinans Hizmetleri, konvansiyonel mikro finans hizmetleri, yoksulluğun azaltılması

PREFACE

In the name of compassionate Allah. Alhamdulillah, I thank Allah SWT for enabling me to finish my thesis. I couldn't learn without His permission and blessing.

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ABBREVIATIONS AND ACRONYMS

IsMFIs **:** Islamic Microfinance Institutions

KIMS **:** Kaah International Microfinance Services

LDCs **:** Less Developed Countries

MF **:** Microfinance

MFIs **:** Microfinance Institutions

SSA **:** Sub-Saharan Africa

VIF **:** Variance of Inflation Factors

CGAP **:** Consultative Group to Assist the Poor

CBS **:** Central Bank of Somalia

SDG **:** Sustainable Development Goals

SEU **:** Somalia Economic Update

GGS **:** Grameen General System

HIPC **:** Heavily Indebted Poor Countries

CHAPTER ONE: INTRODUCTION

1.1 BACKGROUND TO THE STUDY

1.1.1 History of microfinance

In microfinance, underserved communities that are not served by the standard banking system are given access to financial services and goods. Low-income households can reduce their income fluctuations and preserve money for upcoming needs thanks to microfinance. Microfinance supports the growth of families and small enterprises in prosperous times, and it also helps them manage and recover during difficult times.

Microfinance is mostly used to describe microcredit. A micro-credit is a tiny loan that is typically given to those with low incomes. The practice of giving very tiny loans to people without a consistent source of income, assets to pledge as security, or a credit history is known as microcredit, and it is where the concept of microfinance first emerged. It also strives to assist and encourage company owners who lack the resources to launch a startup or commercialize an idea (Yunus, 2007).

Since there were no microfinance practices in existence prior to Professor Muhammad Yunus' innovative concept, those in need who lacked sufficient collateral were unable to enter the banking system. Finding collateral was a barrier to financial inclusion. Before evolving into the current global economic activity, everything started off slowly in Bangladesh's village of Jobra. The method that, in Muhammad Yunus's words, was developed with his goals in mind and aids the most destitute in achieving dignity has a remarkable history, which is detailed here.

In 1940, Professor Muhammad Yunus was born. Grameen Bank, which invented microcredit, was founded by him, and he serves as its managing director. In this type of banking, modest loans are made without security to the underprivileged, primarily women, with the purpose of assisting them in earning revenue. Professor of economics Muhammad Yunus made the startling discovery that the free market had failed to prevent starvation from devouring his nation. The financial system was unable to help these

underprivileged communities, and efforts to combat poverty, including aid and subsidies, were failing to achieve their goals (Yunus, 2007).

To aid a group of 42 women in starting a company, Muhammad Yunus made the decision to give them a personal loan. And it was successful; the female producers of bamboo stools used the loan to increase their output before fully repaying it. As stated in the fundamental tenets of contemporary microfinance, the act of providing financial services to those who are often excluded from traditional banking channels due to their low, irregular, and unpredictable income is how to reduce the degree of poverty and achieve stability in the nation. Yunus founded Grameen Bank in Bangladesh in 1983. Initially, Grameen Bank wanted to help small business owners with loans. A microfinance institution and community development bank, Grameen Bank was founded in Bangladesh.

While Grameen Bank operates under the premise that even the most impoverished people can manage their own financial affairs and growth under the right circumstances, Microcredit is the tool; it consists of brief, low-interest loans with flexible periods.

Three loan categories are offered by Grameen Bank: loans for housing, loans for higher education, and loans for income-generating projects.

One of the main loan options provided to disadvantaged women in rural and semi-rural regions who cannot access conventional loans but want funding to raise their level of living is an income-generating loan. For loans intended to generate revenue, Grameen Bank charged an interest rate of 20%.

The house loans are only accessible to current Grameen Bank borrowers who have a 100% repayment track record and have fully repaid their first two loans for income-generating activities. The aforementioned requirements are reduced as part of a unique housing program offered by Grameen Bank following a natural disaster. For loans intended to generate revenue, Grameen Bank charged an interest rate of 8%.

Higher education loans; Grameen Bank provides scholarships and higher education student loans to its borrowers' children. All of the borrower's children who are enrolled in higher education in Bangladesh are eligible for the Grameen Bank higher education

student loan. Students in Bangladesh's primary, middle, high school, and colleges who have great academic performance are given scholarships by the Grameen Bank. The interest rate at Grameen Bank for higher education was 5%. The decreasing balance approach was used to determine all interest rates. An important strategy put out by Grameen shows that education is one of the fundamental elements for lifting people out of poverty (Yunus, 2007). In the last two decades, Grameen Bank has been extending loan facilities to the most vulnerable and poor people in the society. In the year 1998, there were massive floods in Bangladesh and this contributed to high default rate among the poor people who had received loan facilities.

Because of this, a relatively new credit system with a great degree of flexibility was required. This resulted in the development of the Grameen General System (GGS), which ensured that customers continued to be bank members even when they were unable to pay back their credit facilities.

The main guiding principles of GGS in terms of guiding principles are participation, accountability, and mutual trust. The GGS focuses mostly on the underprivileged people in society.

Interest-based microfinance is offered by Grameen Bank, as was previously stated. However, "Islamic Microfinance Institutions"—interest-free microfinance institutions—have also recently arisen. The Islamic MFIs' lending operations in Somalia are guided by mutual trust. The Grameen approach does not need collateral, in contrast to Somalia's traditional MFI structure. The GGS MFI is owned by the poor in contrast to the typical MFIs in Somalia, which are mostly held by the wealthy.

Grameen Bank is a trust-based institution whose owners are the borrowers. Borrowers are not required to provide any collateral. In contrast to banks and MFIs, they are distinct in Somalia and are owned by a certain group of individuals. While Somali Banks and MFIs would go to court if commercial organizations do not pay the loan and they are forced to sign a legal contract, Grameen Bank does not desire to take any borrowers to court of law in event of non-repayment and it does not ask the borrowers to sign any legal document.

1.1.2 Somali's economic situation and financial system

About three-fifths of Somalia's economy is based on agriculture; however, the main economic activity is not crop farming but livestock raising. Between 1969 and the early 1980s, Mohamed Siad Barre's military government imposed a system of "Scientific Socialism," which was characterized by the nationalization of banks, insurance firms, oil companies, and large industrial firms; the establishment of state-owned enterprises, farms, and trading companies; and the organizing of state-controlled cooperatives. In the end, this experiment weakened the Somalian economy considerably and since the collapse of the military regime, the economy has suffered even more as a result of civil war. In the early 21st century, the country remained one of the poorest in the world, and its main sources of income came from foreign aid, remittances, and the informal sector (Abdinur, M. 2022).

Three-fifths of Somalia's economy is centered on agriculture, however producing cattle rather than crops is the country's major source of income. Mohamed Siad Barre's military regime enforced a "Scientific Socialism" system between 1969 and the beginning of the 1980s. This system was distinguished by the nationalization of banks, insurance companies, oil companies, and major industrial businesses; the construction of state-owned enterprises, farms, and trade organizations; and the organization of state-controlled cooperatives. In the end, this experiment severely damaged the Somalian economy, and since the fall of the military dictatorship, the economy has suffered even more due to civil conflict. The nation was still among the poorest in the world at the beginning of the twenty-first century, remained one of the world's poorest countries, and its major sources of revenue came from international aid, remittances, and the informal economy (Abdinur, M. 2022).

As a result of private spending and cattle exports, the economy emerged from recession in 2020 and is projected to increase by 2.0% in 2021. Floods, locust invasions, and COVID-19 were only a few of the shocks that slowed down recovery and worsened poverty. Remittances, which climbed from 30.8% of GDP in 2020 to a projected 31.3% of GDP in

2021, bolstered private spending. Despite a minor drop in FDI to 9.2% of GDP in 2021 from 9.4% in 2020, private investment remained steady.

Political ambiguity caused the currency reform effort to stall, and given the rampant dollarization and money counterfeiting, this is delaying monetary policy actions. As a result of the decreased food supply, inflation climbed to a projected 4.6% in 2021 from 4.3% in 2020. NPLs represent less than 3% of total credit, and the banking industry is nevertheless solid. The Heavily Indebted Poor Countries (HIPC) project stipulates that Somalia must achieve a zero-cash fiscal balance in order to attain the completion goal (CBS ,2017).

An enormous economic and health catastrophe that started in Somalia in 2020 is still being dealt with today. The COVID-19 pandemic, floods, and locust infestations caused a triple shock for the nation, which resulted in an economic downturn of around 0.4 percent in 2020. The purpose of the Somalia Economic Update (SEU) reports is to provide input into national discourse and policies on topics pertaining to economic growth and recovery. The report's three key messages are as follows. The COVID-19 pandemic highlighted the risks associated with underfunding the public health system. The spread of the epidemic will determine Somalia's short-term economic prospects. To support testing and tracing and to make sure that the logistical, administrative, and financial prerequisites for mass immunization are met, public health funding is essential (Abdullahi S., 2010).

It is more likely that new virus variations may evolve and that a pandemic would last longer if vaccination rates are slower and there is a larger population that isn't protected.

Natural resources are becoming increasingly limited in today's globe. Resources nowadays are compared to the air we breathe. The nations of the globe are so competing to find resources so they can survive, grow, and advance.

Somalia is one of the countries with the longest coastline in the world, the length of Somalia's coast is estimated at 3300 Km when not including the islands. Somalia is located a strategic place for those countries (Asian and African countries) since Somalia is the country makes easy for both the Asian and Africa continent to pass through Gulf of

Aden waterway; because since Somalia controls the Gulf of Aden. Gulf of Aden is a gateway for many countries to export their products to other countries. Gulf of Aden is an essential waterway for Persian Gulf oil, making it very important for the world economy (Abdullahi S. 2010).

Somalia is a country with a normal climate that creates many opportunities to encourage farmers to increase their production. Somalia has a large area that is large enough for its people because its population is estimated at 15 million, it has minerals and oil which is planned to produce the most oil found in the Horn of Africa which will be beneficial for Somalia to be one of the richest countries in the Horn of Africa. It is located in a steep or sloping area which sometimes causes the rivers from neighboring country which is Ethiopia to cause floods due to the place where they located. Estimated quantity of fish available in the coast of Somalia in the Gulf of Aden is approximately 100,000 mt (metric tons). At the same time the country can be the among the first place in the country's economy in terms of hard currency (hard currency refers to money that comes from a country with a strong economy and stable political structure).

If you estimate the size of the Somali coast in the part of the Gulf of Eden that have been mentioned, it is certainly very small, and therefore the fish in the Somali sea may be 10 times more (Abdullahi S. 2010).

Most experts believe that the oil and gas sector is likely to see some progress in the future. Here are some of the major resources of Somalia:

Oil

Due to its close vicinity to Gulf of Arab countries like Yemen and Saudi Arabia, Somalia has a significant oil reserve potential. Although certain foreign businesses, like the Chinese Oil Company, have been given a license to search minerals including oil, oil has not yet been utilized in the nation. The Somalia Petroleum Company was established by the Somalian government to oversee and regulate the nation's petroleum exploration. The Puntland province in northern Somalia has the capacity to generate 5–10 million barrels of

oil, according to Range Resource, an oil company located in Sydney (Hassan, A. A. 2017).

Gypsum

One of the greatest gypsum reserves in the world is said to be located in Somalia. In order to develop one of the greatest gypsum reserves in the world, Ginn Mineral Technology is now working in Somalia. The deposit, which may be found in Berbera, stretches for around 5 kilometers and has been exposed for a considerable distance. Gypsum can be transported extremely easily because the Berbera gypsum is only a few kilometers away from a port. It is known that this deposit has millions of tons of anhydrite and good-quality gypsum. According to estimates, there are more than 13 million tons of gypsum that is more than 90% pure and roughly 9 million metric tons of gypsum that is more than 85% pure (Hassan, A. A. 2017).

Uranium

UN geologists found uranium in Somalia in the late 1960s; they also found a number of other minerals there. The country's resources are thought to account for 25% of the known uranium reserves worldwide, or around 800,000 tons, making it one of the greatest reserves in the world, according to researchers. According to reports from 1984, the nation had 5,000 tons of reasonably guaranteed mineral resources, 11,000 tons of further deposits of calcrete, and perhaps 150,000 tons of speculative resources (Hassan, A. A. 2017).

Wildlife

Somalia has both vegetation and fauna that make up its biodiversity. There are six national parks and several more wildlife reserves in the nation, including Hargeisa, Daallo Mountain, Kismayo, and Jilib National Parks. Around 120 animals and 725 birds are among the many different species of fauna that may be found in these national parks. The elephant and lion, which have been mostly pushed out of the northern coastal areas, as well as rhinos, spotted hyenas, jackals, foxes, and badgers, are some of the more prevalent wild creatures.

Salts

The largest salt plant in history was located in Somalia. In the Hafun region of northern Italian Somalia, a salt factory was developed. During the British invasion of Italian East Africa, the plant was completely destroyed by fire. Approximately 200,000 metric tons of salt were produced at the plant before it was destroyed, and the majority of that salt was sold to Far East Asia.

Other Minerals of Somalia

Other minerals, such as ruby, sandstone, niobium, granite, tantalum, and marble, have been produced in Somalia in recent years. It also possesses deposits of a number of other non-metallic minerals, including kaolin, silica sand, feldspar, and limestone. Small-scale artisanal miners are mostly exploring these minerals. Small amounts of copper and iron ore are also present there.

There are 21 banks in Somalia only three of them are foreign while the remaining ones are domestics in terms of ownerships all these 21 banks are registered and licensed by Central bank of Somalia Mulla H. (2019). There are companies that provide fuel and energy, these companies that provide services related to electricity and oil gases, but all of them are registered with the Ministry of Petroleum and Marine Energy and the Ministry of Electricity and Communications. There is no capital market in Somalia.

1.1.3 How banks and MFIs are licensed and supervised by central bank of Somalia

The Central Bank of Somalia was established in 1968 as the country's financial regulatory institution. After years of insecurity, fragility, and economic decline due to the collapse of the state in 1991, The Central Bank was revived and strengthened with the CBS Act of 2011. The Act laid a new foundation to regulate and boost the country's finance sector and facilitate economic growth (CBS, 2017).

The Central Bank of Somalia is undertaking a transformative journey to meet its core functions and be a policy-oriented institution. This has led to drafting a strategic plan for the bank that charts the progress to be achieved between 2020-2024. There is also a

transitional plan that provides the roadmap to restructure the bank and reform the financial sector of Somalia. The strategic goals include the establishment of monetary policies and regulatory frameworks that support financial sector reform and stability.

The bank has recruited highly qualified senior executives to head the 3 functional groups that have been created as part of the restructuring plans. The bank has also established various policies such as Human Resource policy, Communication Strategy, IT policy and procurement policy, laying the foundation for CBS to operate as a policy-oriented institution. Committee-based governance structures are also being created, forging the path for improved governance and transparency.

According to the 2012 Banking Regulation Act, the Central Bank of Somalia's Licensing and Supervision Department is in charge of overseeing all Somali banking and non-banking financial firms. The Financial Institutions Act and the Central Bank Act, both of 2011, also serve as guidelines for the Department.

The Financial Institutions Act and CBS Act, 2012 state that the CBS is in charge of licensing, overseeing, and regulating all commercial banks, as well as non-bank supervision, licensing, regulation, and compliance, as well as payment system and MM oversight. The agency is also in charge of overseeing other aspects of the Somali financial industry, including as insurance, exchange bureaus, and microfinance companies (Central Bank, 2011).

The objectives with which the Bank will achieve its principal functions, as outlined in Article 5 of the CBS Law, are:

First, develop, carry out, and be accountable for Somalia's monetary and foreign exchange policies; second, hold and manage the country's foreign currency reserves; third, license, regulate, and oversee all banks and financial institutions in order to support the liquidity, solvency, and smooth operation of a stable financial system; and fourth, develop and carry out the policies that will most effectively encourage the development, regulation, and supervision of effective and efficient institutions (CBS, 2017).

Any application for a license to operate a bank or another type of financial institution must be submitted in writing and follow the format outlined by the Central Bank of Somalia in the regulation's schedule. All needed documentation and supporting materials, as well as the requisite application fee, must be submitted with the application. The Central Bank may further request any additional information from the applicant, shareholders, important shareholders, directors, officials, and third parties that it deems essential to finish its evaluation of a bank license application.

1.1.4 Poverty Issue

Poverty is a global problem and especially in developing and less developed countries around the world. In a broader perspective, a poor person is one who can survive with less than $1.90 in a single day (Hassan, 2017). The population of people who are poor around the world is so alarming. For instance, the World Bank estimates 9.2% of the world's population which equal to 689 million individuals are regarded as extremely poor surviving on less than $1.90 on a daily basis.

In the United States, an estimated 10.5% of the entire population was regarded to be living in poverty in the year 2019. For every 10 individuals, 1 of them lives below $1.90 in a day. Within the sub-Saharan Africa (SSA) region, an estimated 40% of the population is regarded as poor. It is against this background that poverty alleviation has received adequate attention among policy makers in the world. Indeed, poverty alleviation has long been regarded as a policy directive that is well aligned and guided by the global Sustainable Development Goals (SDGs) (Singh & Chudasama, 2020).

One of the policies that both developed and developing countries are leveraging to alleviate poverty is microfinance. The history of microfinance can be traced in late 1970s in Bangladesh with the beginning of the Grameen Bank. To the present, microfinance revolution has spread and been adopted in other areas include the Latin America, Asian countries, Eastern Europe and later in Africa. The spread of the microfinance within the context of Africa began in 1980s and gained momentum in 1990s. In its simplest form, microfinance is a policy or program that focuses on the extremely poor people in the society when it comes to lending (Nabi, Islam, Bakar & Nabi, 2017). It is the provision of

financial related services like insurance, savings, loans and financial literacy information to the poor individuals residing both in rural as well as urban centers. Such people are targeted by the microfinance policies because they are not able to access these services from formal financial entities like commercial banks on account of low credit rating. Microfinance has been regarded by the World Bank as a policy aimed at addressing poverty and income inequalities (Jha, 2019).

Microfinance has long been linked with poverty alleviation efforts both in developed and developing countries. As shared by Boullenois (2020), most of the policy makers are of the view that accessing microfinance services in less developed countries results to empowerment of the poor individuals while reinforcing the income generating activities that in turn would result into poverty alleviation. In Bangladesh where the microfinance movement originated, Hossen, Miah and Ruhi (2019) observed that microfinance is regarded as a program that allows access to microcredit which is key alleviation of poverty. Within the context of Malaysia, Samer, Majid, Rizal, Muhamad and Rashid (2015) observed that microfinance had positively impacted on household income of the borrowers especially those that had been members for at least 3 years. In Pakistan, Tasos, Amjad, Awan and Waqas (2020) orated that microfinance had contributed towards reduction of poverty from 42.67% to 29.33%. However, the study obtained contradictory evidence that indicated an inverse link between microfinance and alleviation of poverty because micro borrowers the MFIs should extend the scope of the market by including various types of savings products, payment and remittance services, and various insurance products. A related study within the context of Pakistan by Khan, Khan, Fahad, Ali, Khan and Luo (2021) established that provision of microfinance services positively contributes towards alleviation of poverty.

In Africa, Taiwo, Aregan and Ailemen (2016) said that in Nigeria, most of the commercial banks are modeled like Grameen Bank that place more focus on the poor. In Kenya, Muli (2011) held that microfinance has contributed towards alleviation of poverty although only limited population could access the microfinance services like loans, savings and insurance. According to Chomen (2021) in Ethiopia, effective use of loans advanced to

beneficiaries by microfinance institutions (MFIs) had positively led to an improvement in their incomes. In most countries especially across the world including in Africa, MFIs existed as either fully fledged Islamic or conventional ones. Although most of the Islamic MFIs are found in Arabic and Muslim based countries, these institutions have spread to other non-Muslim countries. There exist clear differences between these two institutions as summarized in Table 1.1 below:

Table 1.3: Differences between Conventional and Islamic Microfinance Institutions

	Conventional microfinance	Islamic microfinance
Sources of funding	External funds from investors; Donation from NGO; Savings	Religious endowment; Donation; Savings;
Mode of financing	Cash	Cash; Endowment land and asset
Dealing with defaults	Interest-based penalty; Peer pressure; Mutual assistance	Islamic teachings; Peer pressure; Mutual assistance
Repayment amount	Principal and interest	Principal amount

Adapted from: Ahmed (2002)

Somalia is ranked among the poorest countries around the world. According to the Human Development Index of 2015, Somalia was ranked among the 5 less developed out of the 170 nations. The rate of poverty in Somalia is estimated at 73% although this figure could be higher than that. The origin of poverty state in Somalia can be traced and attributed to long periods of political fragmentation and civil wars that became serious in 1990s with the collapse of the Government. The fragility coupled with the Al-Shabaab terror groups and severe drought in the country has increased vulnerabilities of the Somalia population increasing poverty conditions. About 50% of the population in Somalia is not able to meet their average consumption of foods which signify the high level of poverty in the country (Pape & Wollburg, 2019).

Islamic microfinance is very limited in the context of Somalia with Kaah International Microfinance Services (KIMS) having been launched in 2014 as the only MFIs that is privately owned. The operation of KIMS is on commercial basis supporting small businesses with loans and saving. Statistics from the website of KIMS indicate that from

its inception, a total of $12,278,122 have been advanced to 13,215 customers (KIMS, 2018). The World Bank report (2019) indicates that the microfinance industry in Somalia is faced with a challenge of lack of regulation. An estimated 3 MFIs exist in Somalia that registered as NGOs or operating as affiliates/subsidiaries of the operational commercial banks in the country.

1.2 RESEARCH PROBLEM

Poverty has remained a global challenge across the continent as a significant proportion of the population is living within the internationally established poverty line. Table 1.2 a breakdown of the poverty situation around the world. From this table, it is evident that highest incidences of poverty are greatly felt in SSA region as compared to Europe and Central Asia regions.

Table 1.4: Poverty State in the World

Region	$1 per day			$1.25 per day		$1.90 per day					
	1990	2002	2004	1981	2008	1981	1990	2000	2010	2015	2018
East Asia and Pacific	15.4%	12.3%	9.1%	77.2%	14.3%	80.2%	60.9%	34.8%	10.8%	2.1%	1.2%
Europe and Central Asia	3.6%	1.3%	1.0%	1.9%	0.5%	—	—	7.3%	2.4%	1.5%	1.1%
Latin America and the Caribbean	9.6%	9.1%	8.6%	11.9%	6.5%	13.7%	15.5%	12.7%	6%	3.7%	3.7%
Middle East and North Africa	2.1%	1.7%	1.5%	9.6%	2.7%	—	6.5%	3.5%	2%	4.3%	7%
South Asia	35.0%	33.4%	30.8%	61.1%	36%	58%	49.1%	—	26%	—	—
Sub-Saharan Africa	46.1%	42.6%	41.1%	51.5%	47.5%	—	54.9%	58.4%	46.6%	42.3%	40.4%
World	—	—	—	**52.2%**	**22.4%**	**42.7%**	**36.2%**	**27.8%**	**16%**	**10.1%**	—

Source: World Bank reports

Microfinance has long been recognized as a policy for poverty alleviation in developed and developing countries. However, the empirical results provide inconclusive, mixed and contradictory results of negative (Tasos et al., 2020) and positive (Khan et al., 2021) nexus between microfinance and poverty alleviation. Other studies were done in different countries like Malaysia (Samer et al., 2015), Pakistan (Tasos et al., 2020), India (Jha, 2019) as well as Ethiopia (Chomen, 2021) and not in Somalia. Additionally, much of the

existing empirical studies like Taiwo, Aregan and Ailemen (2016), Muli (2011) as well as Chomen (2021) cover microfinance in general without considering a clear-cut difference between conventional and Islamic MFIs.

1.3 RESEARCH OBJECTIVES

The study was guided by the following objectives:

i. To determine the impact of Islamic microfinance services on poverty alleviation in Somalia
ii. To establish the impact of conventional microfinance services on poverty alleviation in Somalia
iii. To analyze the statistical difference between the impact of conventional and Islamic microfinance services on poverty alleviation in Somalia

1.4 RESEARCH HYPOTHESES

The study was guided by the following hypotheses:

Ho1: Islamic microfinance services have no significant impact on poverty alleviation in Somalia

Ho2: Conventional microfinance services have no significant impact on poverty alleviation in Somalia

Ho3: There is no statistical difference in the impact of conventional and Islamic microfinance services on poverty alleviation in Somalia

1.5 ORGANIZATION OF THE STUDY

Five chapters make up the structure of this thesis. The opening chapter introduces the rest of the book and lays the groundwork for them. The chapter two literature review is followed by the chapter three discussion of techniques for reaching the study's goals. Chapter four is an analysis of the results, and chapter five contains a summary of the conclusions and suggested next steps.

CHAPTER TWO: LITERATURE REVIEW

2.1 THEORETICAL REVIEW

This study was guided by the financial intermediation theory as well as the poverty theory as discussed in the subsequent sections.

2.1.1 Concepts of microfinance

Micro-finance is defined as the provision of financial services to low-income groups and poor individuals. Originally, the focus of micro-finance was on the provision of micro-credit, small loans often for short periods of time to fund working capital for small firms typically operated by low-income people. However, the area of micro-finance has substantially expanded beyond credit alone, to encompass micro-savings, microinsurance, remittances, and other payments, all of which have a significant influence on poverty (James, 2005).

The world's biggest and most effective microfinance organization, Grameen Bank of Bangladesh, was established by Dr. Muhammad Yunus, the 2006 Nobel Peace Prize winner; it provides financial services to over seven million people (Hassan, 2010). According to Ngehneu & Nimbo (2010), microfinance is a development instrument that offers or grants financial services such very modest credits, savings, micro-leasing, micro-insurance, and money transfers to help the extremely poor start or grow their companies. Microfinance is defined as the provision of financial services to low-income groups, including the self-employed, and has developed as an economic development strategy meant to help the marginally poor, particularly the women (Lan, 2004).

The principle behind microfinance is that impoverished people struggle to improve their financial condition on their own because they lack access to financial services, which is a major barrier to their ability to manage their daily lives, establish new enterprises, or expand current ones (Zeller & Meyer, 2002). Microfinance is the delivery of small-scale

financial services to low-income clients who lack access to mainstream financial services (Ledgerwoo,1999).

The World Bank suggested a little bit different definition for microfinance by linking it with development. Microfinance refers to the provision of financial services to low-income clients, including the self-employed. Microfinance is not simply banking; it is a development tool. Microfinance activities usually involve:

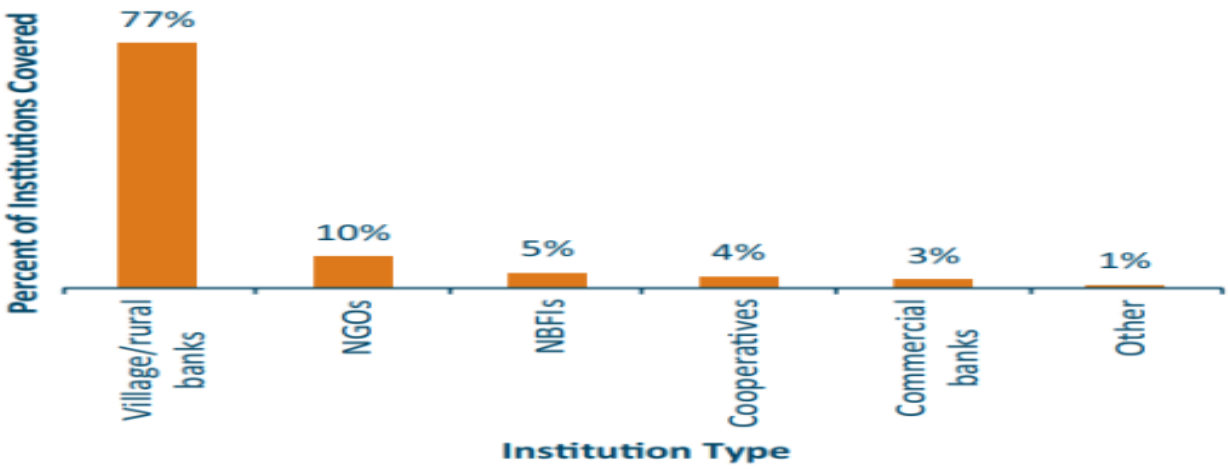
- Small loans, typically for working capital
- Collateral substitutes, such as group guarantees or compulsory savings.
- Access to repeat and larger loans, based on repayment performance.
- Streamlined loan disbursement and monitoring.
- Secure savings products (Ledgerwood J., 2002)

Microfinance emerged as a better alternative method for satisfying the credit needs of the poor in their efforts to improve their livelihood and move out of poverty. Microfinance appears to be an alternative and organized means of getting credit service for those marginalized or financially excluded portion of the population and subject to exploitation by the informal money lenders. The clients of MFIs are in the main low-income persons who are self-employed and hence engaged in micro and small enterprises (Schreiner, 2002).

Microfinance is an institution that provides the poor with savings, credit and insurance facilities with the objective of setting up or expanding income generating activities. It aims at household income security and hence has a broader aim than the simple provision of micro credit (Rajasekhar, 2004). In addition, microfinance institutions also provide entrepreneur, business management, marketing and financial management related support services and trainings to their beneficiaries (Aghion and Morduch, 2004).

Microfinance have become its vital tool for preventing poverty ('Microfinance' refers to microcredit, micro-savings, micro-insurance, switch offerings and different monetary merchandise focused to low-earnings strata of population). Initially, like different microfinance institutions (MFIs).

Microfinance institutions can be organized in different ways. The following chart shows the distribution of the types of institutions in the world.



Source: IFSB (2019)

In Somalia Most MFIs clients take loans to do the activities, including trading, cow rearing, poultry farming (ie. hen and chicken), social activities and vegetable gardening. These financing activities are useful to the people who are not able having money to get collateral-free credit score to the poor, marginal farmers and small entrepreneurs.

2.1.2 Evolution of MFIs in Somalia

The financial services that traditional banks can offer the underprivileged in Somalia are highly limited, much as in other underdeveloped nations. The main barriers that prevent formal financial institutions from helping the rural poor are mentioned as being the high expenses of administering small loans and a lack of suitable collateral. In truth, providing financial services and microcredits to low-income, impoverished households in Somalia has a very recent history. Its origins may be traced to the introduction of microloan

programs as a part of relief-related activities carried out by non-governmental organizations (NGOs) in the late 1980s.

The decision of the government of Somalia to liberalize and restructure the financial sector in the 1990s had a significant impact on the growth of MFIs. Somalia laid down a legal framework for microfinance institutions (MFIs). The issuance of this proclamation is seen as an important breakthrough followed by a number of regulatory directives and policies that help to protect and ensure prudential safety of the 17 Microfinance institutions. Similar to Banks, MFIs service provision also involve public property in the form of savings and credit that requires supervision and regulation of the activities of MFIs by the state with a view to ensuring sustainability and protection of depositors' interest (Hailu, 2006).

2.1.3 Poverty in Somalia

Somalia is one of the poorest countries in the world and the prevalence of poverty has been a common phenomenon in the Somalian history. Agriculture is the major economic activity that employees over 85% of the population characterized by very primitive and less productive as it is even inadequate to feed the growing population. Similarly, the manufacturing and service industries in the country are under developed.

WoldayAmha (2000) claims that the absence of assets, work prospects, income, skills, education, and other factors are the main contributors to the high prevalence of 18 poverties in Somalia (Moti, 2003).

2.1.4 Financial Intermediation Theory

The proponents of this theory were Gurley and Shaw (1961), Akerlof (1970), Spence (1973) and Rothschild and Stiglitz (1976) and it describe the role that a financial institution plays in an economy by mobilizing savings that are loaned out for investment purpose. Thus, MFIs exist so that they can intermediate between spending units that have surplus and those in deficit. These institutions not only channel credit facilities to spending units having deficits but they also providing training in financial related matters to the clients on how best to utilize the loan advanced. The theory argues that the need to

lower information and transaction costs due to asymmetries in information between those borrowing and the institutions lending provide the basis of this theory (Nor & Masron, 2019).

Microcredit refers to the provision of extremely modest loans to underprivileged borrowers who often lack collateral, stable employment, and a history of good credit. According to Ibru (2009), microcredits are those loans obtained through micro financial institutions as a consequence of a lack of start-up capital as a result of poverty, unemployment, and low family income.

By bridging the gap between those lenders who want liquidity and the majority of borrowers who want loans for longer terms, financial intermediaries offer maturity transformation. Financial intermediaries are essential to the ongoing growth of contemporary economies for all the aforementioned reasons. On the other hand, microfinance entails giving extremely modest amounts of savings, credit, and other financial services and goods to the poor in rural, semi-urban, and metropolitan regions in order to help them raise their income levels and improve their standard of life. Microcredit loans are modest sums of money that are obtained by borrowers who have no credit history and no collateral. Borrowers can increase their assets and establish a positive credit history by repaying minor loans.

The financial intermediaries like MFIs therefore help financial markets to function in a way that is so efficient. Santomero and Allen (1998) and Claus and Grimes (2003) observed that two strands of literature exist providing an explanation of reasons for existence of financial intermediaries. In the first strand, the intermediaries are seen to have a role of providing liquidity.

For the S&A (Subsidiary and Associate) the intermediaries are seen to be having the ability of transforming risk attributes of the assets. In these two strands, intermediaries are believed to be contributing towards reduction of the costs incurred when funds are being channeled between lending entities and those who are borrowing them. This increases the efficiency which resources are allocated.

In as much as the presence of financial intermediation can lead to an improvement in investment in a country, there are some profits seeking commercial banks that don't fulfill some specific niches in the market. This is particularly evident to small borrowers who have limited assets to be placed as collaterals. In reducing the agency costs, most commercial banks have strong preference to the borrowers who have assets that can be placed as collaterals (Asmawati & Ahmad, 2017). The theory will be used to anchor the variable of microfinance and how it contributes towards savings and lending among the small businesses.

In 2004, Galor & Moav, further explained that though, financial sector is a significant factor to reduce poverty level and accelerate sustainable development but stated that many poor people are marginalized due to lack of financial information's, and high cost of transaction, lack of collateral security which limited the poor to access the necessary funds that could improve productivity in a country. This means that the prediction of financial intermediary theory which is to mobilize funds from the surplus side of the economy to the needy side in order to improve productivity is a reliable phenomenon to link financial sector and structures such as microfinance bank with sustainable development.

2.1.5 Vicious Cycle of Poverty Theory

Jhingan (2003) and Bradshaw (2006) were the proponents of this theory who observed that a circular interrelation exists that lowers the degree of development in less developed countries (LDCs). The key argument of the theory is that low-income breeds poverty. This is because low income reduces the saving ability which would in turn adversely impact on investment in terms of capital accumulation in a country. It is this reduced investment that would lower the level of productivity and this cycle remains on track. Jhingan (2003) observed that this cycle originates from the notion that the total productivity in LDCs is too low because of imperfections in market, deficient capital and underdevelopment.

The vicious cycle is greatly manifested among the poor because of a number of reasons. First of all, majority of the lending institutions are unlikely to prioritize the poor

borrowers even after meeting all the requirements. The other reason is that poor borrowers are not likely to have adequate collateral required by borrowers before they access funds. All these issues result to a cycle such that the poor are not able to offer the required securities while and the lending institutions cannot advance funds to them (Usman &Tasmin, 2016). The poor people have limited participation in most formal credit markets. It is against this background that majority of the countries have realized the need for micro financing as a policy towards breaking this vicious cycle of poverty. Thus, the theory will be used to underpin the variable of poverty alleviation.

2.2 EMPIRICAL REVIEW

The subsequent sections provide a review of literature as guided by the objective variables of the study.

2.2.1 Comparison Between Islamic and Conventional Microfinance

Al-Najjar (1995) analyzed profitability and sources “transactions for Islamic banks of Egypt. The study dealt with the theoretical aspect of Islamic banks and the 15 differences between conventional and Islamic banks. She obtained profitability analysis indicators through analyzing Islamic banks' balance sheets. The study had been applied to three Islamic banks between 1983 and 1993”.

In the 1990s, Iqbal (2001) compared Islamic and conventional banks. The researcher employed several assumptions in her investigation to uncover the findings of the comparison throughout the study period, which was designed to fill the data gap between 1990 and 1998. Analytical equations were used to assess the effectiveness of this study, and some of its objectives were met.

A 1989 empirical study by Eroul and Elbdour (1989) is only one example of a researcher that looked into consumer behavior when utilizing Islamic banks. By administering a questionnaire to a sample of 434 people who were residing in a facility in 1987, this study used cross-sectional data. The findings demonstrated a significant correlation between religious factors, personnel decisions, and economic activity within banks. Additionally,

among Islamic banks, the ties between staff and community members play a significant part in client selection. The usage of services provided by Islamic banks has not, however, increased significantly as a result of the geographical spread of banking services with an expansion in the number of branches.

A work by Hassan et al. (2009), for instance, sought to explore the differences between conventional banks and Islamic banks in terms of efficiency levels as well as costs, revenues, and profits. Other studies have also compared the efficiency of conventional banks and Islamic banks. It also tries to investigate how the efficiency of banks in terms of profit over revenue and size on costs. A cross-country estimated data set constructed from the financial statements was created by applying this analysis to 40 banks in Organization of Islamic Conference nations between 1990 and 2005.

This table 2.1 is show the main differences between Islamic and Conventional microfinances.

Items	Conventional MFI	Islamic MFI
Liabilities (**Source of Fund**)	External Funds, Saving of client	External Funds, Saving of Clients, Islamic Charitable Sources (*Zakat, Waqf*)
Asset (**Mode of Financing**)	Interest-Based	Islamic Financial Instrument
Funds Transfer	Cash Given	Goods Transferred
Deduction at Inception of Contract	Part of Funds deducted as Inception	No deduction at Inception
Target Group	Women	Family
Work incentive of employees	Monetary	Monetary and Religious
Dealing with default	Group/center pressure and threat	Group center, Spouse Guarantee and Islamic Ethic
Social Development Program	Secular, behavioral, ethical and social development	Religious (includes behavior, ethics and social)

AbdulRahman (2007)

Source: Abdulrahman (2007).

2.2.2 Islamic microfinance services and poverty alleviation

A number of financial services conforming to Islamic finance norms like prohibition of interest are offered by Islamic MFIs (Khan & Muhammad, 2018). As demonstrated by CGAP (2013) Qard-Hassan loan facilities and Murahaba are the key Islamic financing

products advanced to the less advantaged members of the community. Some of the common services that Islamic MFIs offer to customers include micro-credit, micro savings, micro-lease as well as micro-takafu (Warsame, 2020).

Additionally, in the interest-free microfinance program, the microcredit operation is entirely focused on the purchasing and selling system for its members, for which no profit will be claimed, but the member only will return the principal amount; for this reason, Islamic MFIs have access to those consumers (Mustappah H., 2017).

The study conducted in Pakistan by ZahidMahmood, Abbas and Fatima (2017) was an appraisal of the nexus between Islamic microfinance and welfare at household level. The focus of the inquiry was on access to loan facilities from MFIs had impacted on assets, expenditure, income, education and health of the beneficiaries. The study noted difference before and after borrowing incidences in the indicators of welfare. Focusing on the context of Indonesia, Fianto (2017) did an empirical inquiry of performance of the Islamic MFIs. It emerged that financing of the Islamic MFIs had led to an improvement in incomes of the clients relative to those who were not the clients.

Farooqi, Qamar and Chachi (2017) did an inquiry in Bangladesh whose focus was on IsMF schemes and their implication on alleviation of poverty. Two aims guided this inquiry, an appraisal of whether a positive link exists between socio-economic standards and IsMF and to recommend ways of how this system can be improved. It was shown that an improvement in resources and revenues of the beneficiaries of the IsMFIs allow them to enhance their financial freedom. In Indonesia and Malaysia, a comparative inquiry was done by Satar and Kassim (2020) conducted an assessment of challenges and concerns when it came to financing of those in poverty. The methodology embraced was comprehensive analysis and review of the documented materials and information. It emerged from the findings that sustainability and human resource were the key concerns and issues that MFs in both countries were experiencing.

Fianto, Gan, Hu and Roudaki (2018) focused on Indonesia while linking debt and equity related financing with strong reliance on evidence from IsMFIs. Survey was the adopted

design and the data set was a two-year panel. It was noted that the two groups of financing had direct and significant implication on income at household level. Islam, Thambiah and Ahmed (2021) did an assessment of the nexus between IsMF and women entrepreneurial spirit with a focus on Malaysia. Cross sectional design was adopted with the approach being quantitative in nature. Significant link was noted between IsMF and an improvement in entrepreneurial spirit of women. Rahman, Al-Smady and Kazemian (2015) conducted a study whose focus was on how community development can sustain IsMFIs with reference to Bangladesh. This was a critical examination of how IsMFIs have developed and appraises the strategies of countering the barriers they encountered. It emerged that sustainability of the IsMFIs can be sustained by efficient running practices.

Another study conducted in Indonesia by Anwar, Rohman, Purbayu and Gunanto (2019) also appraised IsMF as an integrated model of financing. The inquiry adopted qualitative approach as the design and a positive interplay was registered. Mohamed and Fauziyyah (2020) studied IsMF and alleviation of poverty adopting a review of literature in place. A total of 50 articles linked with MF were surveyed by the study covering comparative and empirical analysis. It was established that MF had led to an improvement in the livelihood and economic progress of the people living in poverty reduction. The inquiries showed that the extremely poor are mostly ignored by the conventional MFIs and that this can be handled by various models of IsMF. The suggestion of the study was that IsMF was the best policy of poverty alleviation particularly in societies dominated by Muslims. According to the study's conclusions, IsMF is the greatest strategy for reducing poverty, especially in Muslim-dominated communities. The four types of Islamic microfinance include micro-saving (based on the contracts of mudaraba, musharaka, and takaful), micro-credit (based on qard Hassan, murabaha, and salam), micro-lease (based on ijara), and micro-takaful mutual guarantee against potential risks of borrowers (Mohamed and Fauziyyah, 2020).

A study was conducted in Sudan by Alsagoff and Surono (2018) on how Islamic microfinance can result into empowerment of the poor people. The specific focus of the study was on Bank of Khartoum. It emerged that this institution started empowering those

living in poverty by conducting business with them as opposed to lending out loans. This led to sharing of risks and profits with those who are poor.

Within the context of Ethiopia, Ali (2020) explored the implication of micro finance services towards alleviation of poverty and financial inclusion. Leveraging the survey method, it emerged from the results that murahaba is greatly provided by majority of the MFIs that a key form of funding small businesses. The key challenge noted by this solution was non availability of detailed and clear legislation from regulator, inadequate knowledgeable and trained staff and high administrative costs related with the system.

The study conducted by Xalane and Mohd (2019) analyzed IsMF and its role in alleviation of poverty. The inquiry was conducted in the context of Mogadishu where 65 beneficiaries of microfinance services were used. It emerged from analysis that IsMFIs and their related activities are supporting the poor to access loans and enhance their living standards thus contributing towards poverty alleviation. Abdinur and Ondes (2022) focused on Somalia to establish the link existing between Islamic financing and ability of small businesses to perform. The approach embraced was quantitative. It was shown that owners of small businesses had belief that through Islamic financing, they had been position to access the funds needed for expansion and growth of their businesses. A direct and significant nexus was registered by Islamic financing and performance of businesses.

In their study on Somalia from 2013, Ali, Abu-Hadi, and Ali placed special attention on the availability of MF for SMEs. Through purposeful study, participants were chosen, with a focus on 100 smaller firms. The survey found that access to financial facilities might be difficult for smaller businesses. It also said that one of the challenges encountered by small enterprises was obtaining microfinance services. Because of this, getting access to these services is seen as challenging. On the financial front, studies highlight that increased credit availability is the most pressing requirement, and that financial services like saving, skill development, and business information are obstacles to the growth of some types of firms.

2.2.3 Conventional microfinance services and poverty alleviation

Yasin (2020) used Indonesia as the case to determine MF and the role in alleviation of poverty. The approach adopted in this study was descriptive and literature reviewed pointed out that MF within has led to an improvement in income of the beneficiaries. Gupta and Sharma (2021) extensively reviewed literature on MFIs and poverty within the context of countries in South Asia. In total, 59 articles underwent systematic study and classification. It emerged that MFIs and reduction in poverty are positively connected although with varied extent on different categories of the poverty.

According to Makuny (2017) research determining how MFIs had impacted on eradication of poverty paying focus on Kenya has been done. The MFI beneficiaries were targeted and 30% were sampled. It emerged that MFIs are strong tools in alleviation of poverty. It emerged that the poor were empowered with micro credit while being able to overcome a number of challenges that were inherent. Through loans and other facilities offered by the MFIs, businesses had expanded their operations allowing beneficiaries to access better health and educate their children.

According to (Khan, Shaorong and Ullah 2017), The study conducted in Pakistan observed that microcredit is an effective policy and program aids in alleviation of poverty. The study observed that commercializing of MFIs is increasingly focusing on empowerment of women as well as alleviation of poverty.

(Boateng, Boateng and Bampoe 2015) used a case of Ghana to link MF and reduction of poverty. Social and economic were adopted as benchmarks for ascertaining the impact. The inquiry shared existence of a direct nexus between MF and variables taken as benchmark. The study conducted in Nigeria by Taiwo, Aregan and Ailemen (2016) analyzed MF and alleviation of poverty. Data was cross sectional in nature and ordinary least square was the analytical method adopted. It emerged from analysis that most of the MF entities in Nigeria are modeled and operate under the principles of Grameen Bank. This involves placing much emphasis to the poor members of the society.

In Uganda Okullu did an assessment of MFIs and their interplay when it came to reduction of poverty. This inquiry was premised on the fact that the degree at which MFIs effectively reduced poverty was not clear. The adopted variables in this study include credit, savings and loan products. It was shown that MFIs were instrumental when reduction of poverty was concerned. A number of challenges were identified that these institutions faced including default rate of the customers that negatively impacted on loan recovery efforts. According to Okullu, other constraints identified included limited capital that can sustain the increasing number of customers (Okullu, 2012).

Wairimu (2019) did an assessment of loans advanced by MF and reduction of poverty. The specific focus of the study was on World Vision (World Vision International is an evangelical Christian humanitarian aid, development, and advocacy organization). The beneficiaries of the World Vision were targeted where a total 50 participants were involved. Selection of participants was sampled through random sampling. It was observed that loan facilities that MFI advance contribute towards reduction of poverty.

This justification for a connection between microcredit and a reduction in poverty, according to Bateman and Chang (2012), is rather vague. For instance, given the lack of possibilities for employment, repayment ability will often be lost, and the enforcement of payback is more likely to result in debtors being impoverished. Thus, depending on the availability of productive possibilities as well as other conditions, the poor's access to and use of microcredit can either reduce or worsen poverty (Gonzalez Vega, 2003). Additionally, it is asserted that while the economically engaged poor might be able to utilize credit wisely and make repayments, the really poor would not (Robinson, 2001). This might be because they lack the necessary skills to use the loans efficiently or can't find profitable self-employment (Hulme and Mosley, 1996).

2.2.4 Islamic, conventional microfinance and poverty alleviation

Uddin and Benabderrahmane (2019) did a comparison of IsMF and conventional ones and their implication on alleviation of poverty. The specific focus of the study was outreach and availability of microfinance services. The clients of the respective institutions were

determined through simple random sampling. It emerged from results that there was availability and accessibility of loan facilities of the MFIs irrespective of the business categories and gender of the beneficiaries. As observed by Abdelkader and Salem (2013), conventional MF are characterized with more development and widely spread around the world as compared to the IsMF. Islamic microfinance is sufficient for both male and female clients since Islamic MF provides the potential to reach a considerable number of poor Muslim households who currently perform not to get the providers of conventional MFIs due to presence of riba component.

As well as urban and rural customers on the effectiveness of Islamic microfinance, it largely depends on the type of business the customer is involved in positive relationships with conventional microfinance family income and children's education. Consistent with the results Some of the studies 43 positive relationships between conventional microfinance, households, spending, assets and consumption client. Male clients have a greater impact on traditional microfinance, and these consumers also benefit more from conventional microfinance. engagement in activities categorized as arts, crafts, services, and other activities C. Abdelkader (2016).

Ahmad, Lensink and Mueller (2020) did a study whose focus was on comparison of conventional and IsMF. The survey of literature by this study demonstrated that conventional MFIs can contribute towards promotion of financial inclusion, but ethical concerns are raised especially in respect to socially related aftermath of high cost of borrowing and commercialization. On the other hand, IsMFIs with their strong adherence to prohibition of interest provide a relevant alternative. The analysis demonstrated that IsMFI markets are currently critical as previously acknowledged and that they have experienced some growth in recent past. There were higher chances that IsMFIs will still grow their markets in other regions and parts of the world. The findings determined through statistical comparison in respect to financial performance and outreach indicated that IsMF have greater depth and breadth as compared to conventional one. It was further noted that conventional MFIs have stronger financial performance as compared to their IsMFI counterparts.

Md and Benabderrahmane (2019) used a case of Bangladesh to appraise conventional and IsMFI and how they impact on alleviation of poverty. The specific focus of the study was on outreach as well as availability of credit services. In total, 400 participants being clients from the MFIs were sampled through simple random technique. It emerged from analysis that there was availability and accessibility to credit facilities in the MFIs irrespective of the nature and type of business owned by the borrowers. The study done in Jordan by Bui (2013) focused on how borrowers utilized MF among the Islamic and conventional institutions. The specific focus of the study was on Islamic and conventional borrowers differed on the basis of the decisions they made regarding investments and other projects. It was shown that the take of loans from MFIs increase the probability of investments in businesses. Differences were noted between the two groups of borrowers in respect to their micro-businesses although Islamic borrowers had low probability of investing in acquisition of consumer durable products. The implication drawn was that differences existed in regard to investment decision that was made by the two groups of borrowers.

2.3 Structural Framework

Figure 2.1 is the Structural Framework of the study.

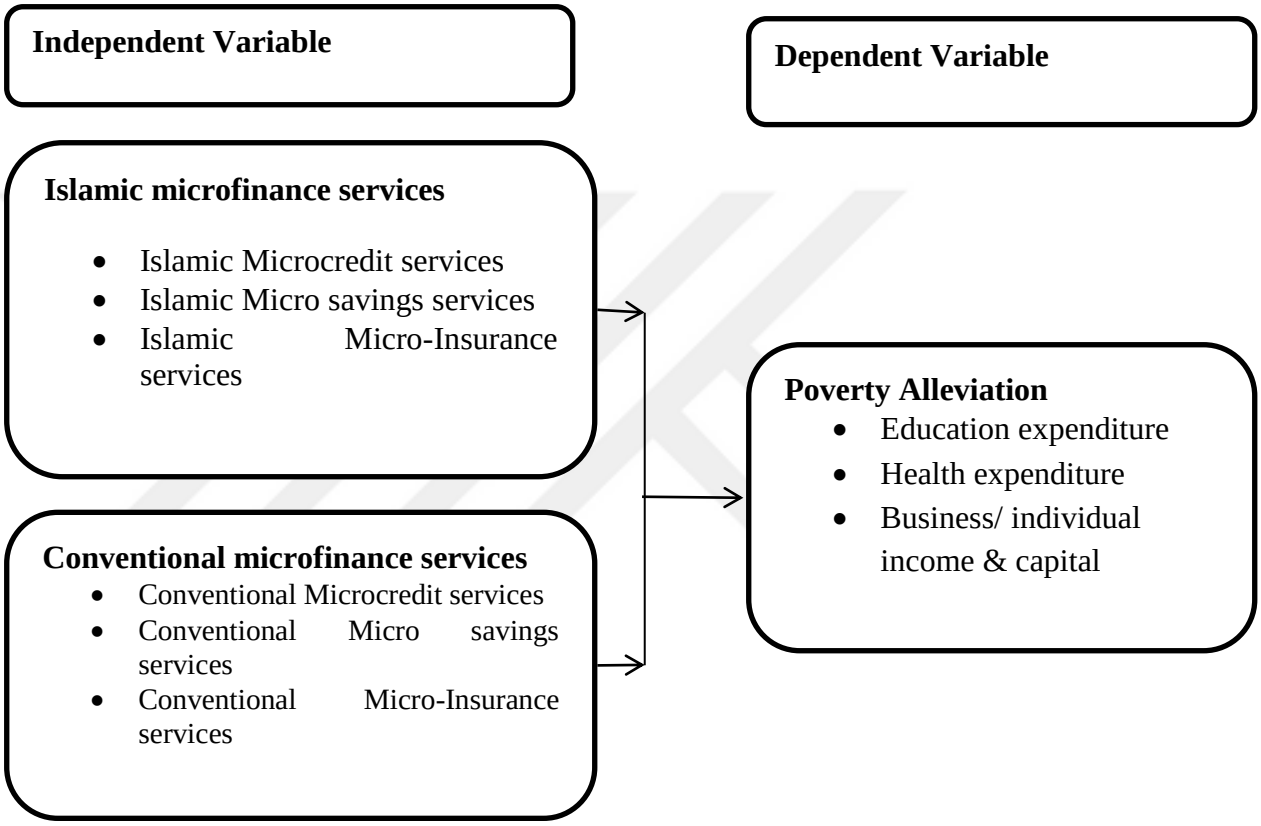


Figure 2.1: Structural Framework

CHAPTER THREE: METHODOLOGY

3.1 Research Philosophy

Quantifiable observations that result in statistical analysis are essential to positivism. It has long dominated the field of study. In positivist approach the research can't go beyond the boundaries. Therefore, positivist philosophy was adopted in this study. As noted by Harris, Holyfield, Jones, Ellis, and Neal (2019), this type of philosophy is a reflection of the world as an external agent. As such, philosophy relies on structural and observational methods when conducting the study. Since the current study included testing the relationship between variables and comparisons, this philosophy was considered appropriate for investigation. Information for the analysis was collected from a variety of sources with respondents drawn from different parts. This philosophy seeks to eliminate any form of bias and the researcher is isolated from those involved in the inquiry.

3.2 Research Design

Explanatory research design covering comparative approaches were adopted in this study. Dźwigoł (2019) orate that studies focusing on establishing the relationship between the variables are mostly guided by explanatory designs. This design was preferred since a number of hypotheses were formulated that were tested in this study. The empirical and theoretical literature informed the development of the hypotheses.

3.3 Target Population and Sample Size

Population is the collection of subjects or objects including individuals that have common features which can be observed (Thanem & Knights, 2019). The study targeted 750 active clients of the conventional and Islamic MFIs shown on appendix III, which operate in Mogadishu Somalia. The study focused on respondents who had been clients of the respective MFIs for a period of at least 3 years. The breakdown of this population is represented in Table 3.1.

Table 3.1: Target population

Category	Target population	Sample proportion
Islamic MFI clients	500	500/750*100%=66.7%
Conventional MFI Clients	250	250/750*100%=33.3%
Total	**750**	**100.0**

Sampling is the process of selecting the representative units from the target population for inclusion in the inquiry (Ghauri, Grønhaug & Strange, 2020). Sample size is what is determined once sampling has been conducted. The study adopted the formulae by Yamane (1967) to determine the sample size as under:

$$n=\frac{N}{1+(N-1)e^2}$$

Where n= the required sample size

N = is the Target Population

e = accuracy level required. Standard error = 5%

$$n=\frac{750}{1+(749)0.05^2}$$

$$n=\frac{750}{2.875}$$

=260 respondents

Thus, the sample size of the study was 260 respondents. Stratified random sampling was critical in selecting the 260 respondents from the target population as presented in Table 3.2.

Table 3.2: Sample Size

Category	Target population	Sample proportion	Sample size
Islamic MFI clients	500	500/750*100%=66.7%	66.7%*260=173
Conventional MFI Clients	250	250/750*100%=33.3%	33.7%*260=87
Total	**750**	**100.0**	**260**

3.4 Data Collection Tools and Procedures

Primary data was gathered in this study supported by survey questionnaire. The advantage associated with use of questionnaire for data gathering include the notion that they are relatively cheap to construct and administer to participants, they have capability of gathering huge among of evidence from participants even with time constraints and the participants have an opportunity of having their responses anonymous (Hennink, Hutter & Bailey, 2020). Appendix I is the questionnaire that was used in data gathering in this study and it has sections guided by the objective variables of the study. Two sets of questionnaires were utilized in this study, one for IsMFI clients and the other one for conventional MFIs clients.

I have 4 friends who live in Mogadishu and one of them (Zubeir) work with Salam Somali Bank and the other one (Salah) works Dahabshiil Bank. I have sent them the questionnaires and they collected the data for me and they prepared an excel sheet for me and I analyzed from the excel. I communicated with those friends through E-mails and WhatsApp and I attached the proof of that at the Appendix IV. I attached a paper that shows the I.D card of current university I am doing master to help that this research is meant for study.

Before the actual data gathering exercise in the field, permission to gather data was obtained from respective MFIs in written form. I have discussed with my friends how to approach to the managers of MFIs with ethical way for purpose of telling them that this research is made for study purpose. Once the questionnaire had been delivered to the clients of MFIs as a hard copy sufficient time was given to them to provide relevant responses to the research questions after which they were recollected.

Those respondents that I have distributed the questionnaire are the managers of the client business entities (companies) that benefit from microfinance services of the MFIs.

The reason for preference of business entities instead of individuals is that most of the MFIs provide microfinance services to companies (Business entities) instead of individuals for some restrictions that would not allow individuals to get microfinance

services. Those who demand MFI's services have to show some evidences that he /she is so poor that there is no asset owned. Also, to get benefit from MFI's services, some rich relatives should be available, who can give references and can take responsibilities. For that reason of getting microfinance services as individual is very difficult in Somalia and therefore individuals getting benefit from MFI's services are in minority. Those getting microfinance services in majority are companies (Business entities) and therefore I distributed my questionnaire to companies (Business entities).

3.5 Research Quality

Quality of the study was determined through validity and reliability analysis. Validity is a determination of whether a study tool is a true measure of the item it is designed to measure. In this study, content and construct validity were tested. Construct validity was ensured through generation and selection of the study variables from the existing literature and the theories reviewed. Experts in the field of MFIs were selected and administered with the questionnaire to review and recommended their suggestions that were affected in the final copy of the questionnaire before proceeding to the field.

Reliability is reflected in the consistency of the tool used in the study. Reliable instrument provides measurements that are consistent (Gravetter & Forzano, 2018). The questionnaire was pilot tested as a basis of determining reliability, among respondents in Warta Nadaba district of Mogadishu since most of MFIs located in that area of Mogadishu. The dully filled in questionnaire from the pilot study was then utilized to generate values of Cronbach Alpha Coefficients that was interpreted at 0.7 as the threshold.

Researchers frequently use Cronbach's alpha to show that tests and scales they have developed or used for research projects are appropriate. Cronbach alpha values of 0.7 or above indicate adequate internal consistency, which is typically desirable.

As Reliability of the study questionnaire was assessed through computation of the Cronbach Alpha Coefficient as summarized in Table 3.3.

Table 3.3: Reliability Results

ISLAMIC MFI RELIABILITY RESULTS		
Variable	**No. of Items**	**Cronbach Alpha**
MFI services	8	.756
Poverty alleviation	5	.875
CONVENTIONAL MFI RELIABILITY RESULTS		
MFI services	8	.779
Poverty alleviation	5	.833
OVERALL RELIABILITY RESULTS		
MFI services	16	.859
Poverty alleviation	10	.767

Table 3.3 shows that all the variables across the three categories had Cronbach Alpha Coefficient values above 0.7. This implies that the scale used in design of the two sets of questions for IsMF clients and the conventional MFI clients were reliable. This view is consistent with Gravetter and Forzano (2018) who observed that an above 0.7 Cronbach Alpha coefficient values signify reliability of the scale.

3.6 Data Analysis and Presentations

Data analysis is the processing of the raw facts shared by the participants to generate relevant insights in response to the hypotheses (Privitera, 2018). Once data has been gathered, it underwent cleaning and editing for completeness and accuracy in excel. From here, it was exported to SPSS version 24. Means and standard deviations were then generated to provide a description of the data. Inferential statistics covering regression and independent sample t-tests were also used. Table 3.3 provides a summary of how each of the study hypotheses was analyzed.

Table 3.4: Summary of Data Analysis Methods

Null Hypotheses	Statistical Test	Inference
Ho1: Islamic microfinance services have no significant	$PA = \beta_0 + \beta_1 IsMFS + \varepsilon$	Record the values of $R^2, \beta_1 and\ F$ for the

impact on poverty alleviation in Somalia		model Reject $H_0 1\ if\ p < 0.05$, Accept $H_0 21 if\ p > 0.05$
Ho2: Conventional microfinance services have no significant impact on poverty alleviation in Somalia	$PA = \beta_0 + \beta_2 CMFS + \varepsilon$	Record the values of $R^2, \beta_2 and\ F$ for the model Reject $H_0 2\ if\ p < 0.05$, Accept $H_0 2\ if\ p > 0.05$
Ho3: There is no statistical difference in the impact of conventional and Islamic microfinance services on poverty alleviation in Somalia	Independent t-test	Reject $H_0 3\ if\ p < 0.05$, Accept $H_0 3\ if\ p > 0.05$

3.6.1 Diagnostic tests

The study tested for normality and multicollinearity tests to validate the assumptions of regression with their discussion as illustrated in the subsequent sections.

Normality Tests: The essence of normality test is to ascertain if the data set has a normal distribution which is desirable before regression analysis. The study relied on scatter plots and Shapiro Wilk test to determine if the data is normally distributed and p-values were appropriately interpreted. The Shapiro Wilk test is relevant when a sample has 3 to 2000 units while any units above that required KolmogorovSmirnov test (Omagwa, 2010).

Multicolinearity test: This was done to determine if any of the independent variable is correlated with another similar variable. Variance of Inflation Factors (VIF) values was computed to determine multicolinearity in the data. Gujarati and Porter (2009) argue that VIF with a range of 1-10 signify absence of multicolinearity in the data set.

CHAPTER FOUR: FINDINGS AND DISCUSSION

4.1 Response Rate

The response rate was determined on the basis of the total questionnaires that had been administered and those that were received having been dully filled in for each category of the respondents as well and the combined rate as summarized in Table 4.1.

Table 4. 1: Response Rate

	Frequency	Percentage
CONVENTIONAL MFI CLIENTS		
Response	42	48.3%
Non response	45	51.7%
Total	**87**	**100.0**
ISLAMIC MFI CLIENTS		
Response	140	80.9%
Non response	33	19.1%
Total	**173**	**100.0**
OVERALL RESPONSE RATE		
Response	182	70.0%
Non response	78	30.0%
Total	**260**	**100**

Table 4.1 shows that in 80.9% of the respondents from IsMFIs respondents while that of the conventional MFIs stood at 48.3% giving a cumulative response rate of 70.0%. This was consistent with Bell, Bryman and Harley (2018) who observed that an above 70% response is always good to support the analysis of the results in a survey.

4.2 General Information

The study gathered the gender information of the respondents covering the gender.

4.2.1 Gender distribution

Table 4.2 is a breakdown of the gender of the participants.

Table 4.2: Gender Distribution

ISLAMIC MFI CLIENTS			CONVENTIONAL MFI CLIENTS		
Category	**Frequency**	**Percentage**	**Category**	**Frequency**	**Percentage**
Male	114	81.4	Male	32	76.2
Female	26	18.6	Female	10	23.8
Total	**140**	**100.0**	**Total**	**42**	**100.0**

Table 4.2 shows that while 81.4% of the IsMFI clients (Managers of Client Companies) were male, 76.2% were male clients (Managers of Client Companies) of the conventional MFIs. A follow up with the customer relationship managers of the respective MFIs confirmed that indeed that was a normal distribution as majority of their clients' managers were male as compared to females. This means that access to formal MFIs services in most developing countries like Somalia is limited to male as opposed to females. In other words, it implies that women face a number of challenges including social discrimination that limit their access to MFI services. This assertion is contrary when it comes to rapidly advancing economies like Pakistan where Khan et al. (2017) observed that microcredit is an effective policy and program aids in alleviation of poverty and that commercializing of MFIs is increasingly focusing on empowerment of women as well as alleviation of poverty. Also, in the system developed by Muhammed Yunus preference has been given to females. In further studies the gender of the owner and manager and the person responds to the questionnaire should be carefully determined and reasons for bias should be discussed and commented.

4.2.2 Age distribution

The study sought to establish the distribution of respondents by age and the findings were determined and summarized as shown in Table 4.4.

Table 4.3: Age Distribution

ISLAMIC MFI CLIENTS			CONVENTIONAL MFI CLIENTS		
Category	**Frequency**	**Percentage**	**Category**	**Frequency**	**Percentage**
21-30 years	24	17.1	21-30 years	6	14.3
31-40 years	60	42.9	31-40 years	17	40.5
41-50 years	46	32.9	41-50 years	16	38.1
Over 51 years	10	7.1	Over 51 years	3	7.1
Total	**140**	**100.0**	**Total**	**42**	**100.0**

Table 4.3 shows that while 42.9% of the IsMF clients (Managers of Client Companies) were 31-40 years, 7.1% were over 51 years. For the conventional MFIs clients (Managers of Client Companies), 40.5% were 31-40 years and 7.1% were over 51 years. This implies that access to MFIs in recovering countries like Somalia is limited to clients (Managers of Client Companies) in youthful age. This could be explained by the fact that majority of the elderly people could be having low credit scores as compared to the youthful generation when it came to access to MFI services.

4.2.3 Source of income

The researcher probed to establish the source of income of the respondents (Managers of Client Companies) as shown in Table 4.4.

Table 4.4: Source of Income

ISLAMIC MFI CLIENTS			CONVENTIONAL MFI CLIENTS		
Category	**Frequency**	**Percentage**	**Category**	**Frequency**	**Percentage**
Employment	29	20.7	Employment	9	21.4
Business	111	79.3	Business	33	78.6
Total	**140**	**100.0**	**Total**	**42**	**100.0**

For the majority of the IsMFI clients (79.3%), the study noted that their major source of income was business. This was also consistent with 78.6% of the conventional MFI clients whose major source of income was also from business. A follow up of this was made

through the records departments of the respective MFIs where it was confirmed that indeed, most of the clients were involved in small businesses as their major source of incomes. This was therefore interpreted to imply that majority of the clients sought for micro credit facilities to support their businesses.

We can infer that most of the managers of those small business entities (Co. s) which are becoming clients of MFIs are also owners.

4.2.4 Length of time as clients of the microfiche institutions

The length the respondents had been clients of their respective MFI was determined and the results summarized as shown in Table 4.5.

Table 4.5: Length of time as a client

ISLAMIC MFI CLIENTS			CONVENTIONAL MFI CLIENTS		
Category	**Frequency**	**Percentage**	**Category**	**Frequency**	**Percentage**
< 3 years	38	27.1	< 3 years	11	26.2
4-7 years	82	58.6	4-7 years	25	59.5
8-10 years	20	14.3	8-10 years	6	14.3
Total	**140**	**100.0**	**Total**	**42**	**100.0**

Table 4.5 shows that while 58.6% of the respondents had been clients of the IsMFIs for 4-7 years, 59.5% had been clients of conventional MFIs for 4-7 years. This implies that respondents had relied on MFIs for a relatively longer duration of time and thus they probably they had a good memory of how their services like microcredit and micro savings they received from these institutions had practically impacted on poverty alleviation at their individual level. This was the central question that this study strived to provide answers to.

4.3 Diagnostic Tests

The study tested for normality and multi-collinearity tests to validate the assumptions of regression with their discussion as illustrated in the subsequent sections.

4.3.1 Normality test

The essence of normality test is to ascertain if the data set has a normal distribution which is desirable before regression analysis. The study relied on scatter plots and Shapiro Wilk test to determine if the data is normally distributed and p-values were appropriately interpreted. The Shapiro Wilk test was relevant when a sample has 3 to 2000 units while any units above that required Kolmogorov Smirnov test (Omagwa, 2010). Table 4.6 summarizes the results of normality test.

Table 4.6: Shapiro Wilk test Results

	Shapiro-Wilk		
	Statistic	**Df**	**Sig.**
Islamic Microfinance Services	.253	18	.123
Conventional Microfinance Services	.720	21	.456

Table 4.7 shows that p-values across the two variables are $p>0.05$. This is an indication that the data used in the study had normal distribution which is needed for regression modeling. This is supported by the assertion of Omagwa (2010) who shared $p>0.05$ in a Shapiro wilk test is an indication of presence of normality assumption.

4.3.2 Multicolinearity test

This was done to determine if any of the independent variable is correlated with another similar variable. Variance of Inflation Factors (VIF) values were computed to determine multicolinearity in the data. Gujarati and Porter (2009) argue that VIF with a range of 1-10 signify absence of multicolinearity in the data set. Table 4.8 is a breakdown of the multicollinearity test results.

Table 4.7: Multicollinearity test Results

	Collinearity Statistics	
	Tolerance	**VIF**
Conventional Microfinance Services	.753	1.328
Islamic Microfinance Services	.857	1.167
Poverty Alleviation	.695	1.439
Mean	**.768**	**1.311**

Table 4.7 indicates the mean VIF value as 1.311, which falls within the limit of 1-10. This is consistent with the assertion of Gujarati and Porter (2009) who argue that VIF with a range of 1-10 signify absence of multicolinearity in the data set.

4.4 Impact of Islamic Microfinance Services on Poverty Alleviation

The first objective was set out to determine how Islamic MF services impacted on poverty alleviation. This section presents the descriptive statistics and regression results.

4.4.1 Descriptive statistics of Islamic microfinance services

Table 4.8 summarizes the descriptive statistics on IsMF services.

Table 4.8: Descriptive Statistics of Islamic Microfinance Services

	Mean	**Std. Dev**
I can easily access micro-credit from the Islamic MFI without interests	3.87	.555
The micro-credit from Islamic MFI has flexible repayment periods	3.63	1.100
The microcredit from Islamic MFIs has allowed me to expand the business	3.70	.817
I save the business income with Islamic MFIs	3.78	.697
I don't earn any interest on savings with Islamic MFIs	3.89	.664
I can borrow micro-credit based on proportion of savings with the Islamic MFIs	3.49	.893
I have taken a micro-insurance policy for this business from the Islamic MFI	3.90	.708

The premiums for micro-insurance policy of the Islamic MFIs are flexible	3.87	.555
Average	**3.77**	**.749**

The findings in Table 4.8 indicate that to reach Islamic MF services by the clients who were studied (M=3.77, SD=0.749) could be done smoothly and easily. This implies that the studied Islamic MFIs played an instrumental role as far as financial intermediation was concerned which is critical for the growth and development of the emerging and recovering economies like Somalia. This finding is fully supported by the financial intermediation theory advanced by Gurley and Shaw (1961), Akerlof (1970), Spence (1973) and Rothschild and Stiglitz (1976) that offers a description of the role that a financial institution plays in an economy by mobilizing savings that are loaned out for investment purpose. The participants in the study were in agreement that they had taken micro-insurance policies for this business from the Islamic MFI (M=3.90, SD= .708).

This means that the IsMFIs allowed customers to access insurance services for their business. Insurance is a risk transfer method that aim to mitigate the effects that may arise when an unforeseen event happens in future that may bring significant losses to businesses. In the Islamic perspective, such form of insurance is called Takaful and it allows clients to share the risk instead of transferring the risks of their business to third parties at a participation fee called insurance premiums. This finding is supported by Nabi et al. (2017) who observed that microfinance is a policy or program that focuses on provision of financial related services like insurance, savings, loans and financial literacy information to the poor individuals residing both in rural as well as urban centers.

The study established that participants were in agreement that they didn't earn any interest on savings with islamic MFIs (M=3.89, SD=.664). This finding was strong supported by the Shariah rules that prohibited charging of interest called 'riba' on loans and savings. However, this could not create enough wealth for clients in form of return which is a key motivation for people to invest. This finding is consistent with Khan and Muhammad (2018) who shared that a number of financial services conforming to Islamic finance norms like prohibition of interest are offered by Islamic MFIs. Similarly, Ahmad, Lensink and Mueller (2020) did a study whose focus was on comparison of conventional and IsMF

band observed that IsMFIs with their strong adherence to prohibition of interest provide a relevant alternative. The results of the study further showed that the premiums for micro-insurance policy of the Islamic MFIs were flexible (M=3.87, SD=.555). The flexibility of these insurance premiums could be in terms of the minimum amount to pay and convenient payment periods for instance lamp sum, monthly, quarterly or full year. This perhaps was well aligned and customized to the business needs of the clients.

The study established that respondents could easily access micro-credit from the Islamic MFI without interests (M=3.87, SD=.555). This was an advantage to the business as it decreased the costs of financing of their business since only the principal amount of credit facility advanced by the MFI was repaid. Worthwhile to note is that repayment of interest is treated as an operating profit that may reduce the net income generated by the firm. Therefore, taking up a loan facility that does not attract interest repayment is an important strategy of maximize the net incomes generated by the business that relied on IsMFIs for financing. This finding is supported by Ahmad, Lensink and Mueller (2020) who observed that IsMFIs with their strong adherence to prohibition of interest provide a relevant alternative. The study established that participants were in agreement that they saved the business income with Islamic MFIs (M=3.78, SD=.697).

This means that the IsMFIs mobilized savings in form of deposits from their clients that were then utilized to credit facilities to the clients that needed borrowing. This is the entire process of what financial intermediation means. This is supported by Gurley and Shaw (1961), Akerlof (1970), Spence (1973) and Rothschild and Stiglitz (1976) who observed that financial institution plays an important role in in an economy by mobilizing savings that are loaned out for investment purpose.

The results of the study were that participants were in agreement that microcredit from Islamic MFIs had allowed them to expand their businesses (M=3.70, SD= .817). This implies that the clients of IsMFIs accessed loan facilities from these institutions that were used to grow and expand their business in terms of accumulation of additional stock and hiring or additional staff. This in turn improved the living standards of the said parties thus contributing towards poverty alleviation. This perhaps also improved the revenues

generated by their businesses allowing the clients to take their children in best performing schools, meet their health bills and improve their overall consumption expenditure and purchasing power. Respondents of the study further shared that the micro-credit from conventional MFI had flexible repayment periods (M=3.63, SD=1.100). The flexibility in repayment of this micro credits from IsMFIs could be interpreted in light of prohibition of interest payment suggesting that only the principal amount was repaid. As observed by Warsame (2020), some of the common services that Islamic MFIs offer to customers include micro-credit, micro savings, micro-lease as well as micro-takafu (Warsame, 2020). Makuny (2017) was keen to determine how MFIs had impacted on eradication of poverty paying focus on Kenya. It emerged that MFIs are strong tools in alleviation of poverty.

It emerged that the poor were empowered with micro credit while being able to overcome a number of challenges that were inherent. Through loans and other facilities offered by the MFIs, businesses had expanded their operations allowing beneficiaries to access better health and educate their children. The study conducted in Pakistan by Khan, Shaorong and Ullah (2017) observed that microcredit is an effective policy and program aids in alleviation of poverty. Md and Benabderrahmane (2019) used a case of Bangladesh to appraise conventional and IsMFI and how they impact on alleviation of poverty. It emerged from analysis that there was availability and accessibility to credit facilities in the MFIs irrespective of the nature and type of business owned by the borrowers.

4.4.2 Linear regression results linking Islamic microfinance services and poverty alleviation

Islamic MF services were regressed on poverty alleviation so as to test the formulated hypotheses. Table 4.9 is a summary of the results.

Table 4.9: Linear Regression Results Linking Islamic Microfinance Services and Poverty Alleviation

	Unstandardized Coefficients		Standardized Coefficients		
	B	**Std. Error**	**Beta**	**T**	**Sig.**
(Constant)	4.453	1.336		3.333	.001
Islamic Microfinance Services	.811	.046	.832	17.601	.000
R=.832	**R^2=.692**	**Adjs. R^2=.690**	**F=309.812**	**Sig=.000**	

a. Dependent Variable: Poverty Alleviation

b. Predictors: (Constant), Islamic Microfinance Services

The results in Table 4.9 shows that Islamic MF services are strong correlates of poverty alleviation in Somalia (R=0.832). In fact, the relationship between these two variables was positive, meaning that any effort made to enhance the functioning of IsMFIs in Somalia would greatly contribute towards poverty alleviation efforts. Table 4.9 further indicates that 69.2% variation in poverty alleviation in Somalia is solely explained by variation in Islamic MF services that clients received (R^2=0.692). This implies that in additional to the efforts that Islamic MFI institutions play towards poverty alleviation, there are other programs and policies with equal effect on this that deserve the attention of further inquiries and investigation by scholars. The first hypothesis of the study was:

Ho1: Islamic microfinance services have no significant impact on poverty alleviation in Somalia

The results in Table 4.9 shows that Islamic microfinance services (β=.811, $p<0.05$) had significant beta that was also positive. Thus, the study rejected hypothesis Ho1 and deduce that Islamic MF service have significant impact on alleviation of poverty in Somalia. The positive interplay of the beta coefficient implies that improving IsMFs is a desirable condition that would lead to success in poverty alleviation in Somalia. These findings are empirically consistent with the literature reviewed include ZahidMahmood, Abbas and

Fatima (2017) focused on access to loan facilities from MFIs had impacted on assets, expenditure, income, education and health of the beneficiaries. The study noted difference before and after borrowing incidences in the indicators of welfare. Fianto (2017) observed that financing of the Islamic MFIs had led to an improvement in incomes of the clients relative to those who were not the clients. Farooqi, Qamar and Chachi (2017) did an inquiry in Bangladesh whose focus was on IsMF schemes and their implication on alleviation of poverty. It was shown that an improvement in resources and revenues of the beneficiaries of the IsMFIs allow them to enhance their financial freedom. Fianto, Gan, Hu and Roudaki (2018) focused on Indonesia while linking debt and equity related financing with strong reliance on evidence from IsMFIs. It was noted that the two groups of financing had direct and significant implication on income at household level. Islam, Thambiah and Ahmed (2021) did an assessment of the nexus between IsMF and women entrepreneurial spirit with a focus on Malaysia. Significant link was noted between IsMF and an improvement in entrepreneurial spirit of women. Rahman, Al-Smady and Kazemian (2015) conducted a study whose focus was on how community development can sustain IsMFIs with reference to Bangladesh. It emerged that sustainability of the IsMFIs can be sustained by efficient running practices. Anwar, Rohman, Purbayu and Gunanto (2019) appraised IsMF as an integrated model of financing and a positive interplay was registered. Mohamed and Fauziyyah (2020) studied IsMF and alleviation of poverty adopting a review of literature in place. It was established that MF had led to an improvement in the livelihood and economic progress of the people living in poverty. The inquiries showed that the extremely poor are mostly ignored by the conventional MFIs and that this can be handled by various models of IsMF. Alsagoff and Surono (2018) looked at how Islamic microfinance can result into empowerment of the poor people. The specific focus of the study was on Bank of Khartoum. It emerged that this institution started empowering those living in poverty by conducting business with them as opposed to lending out loans. Within the context of Ethiopia, Ali (2020) explored the implication of micro finance services towards alleviation of poverty and financial inclusion. Leveraging he survey method, it emerged from the results that murahaba is greatly provided by majority of the MFIs that a key form of funding small businesses. The study conducted by Xalane and Mohd (2019) analyzed IsMF and its role in alleviation of

poverty. It emerged from analysis that IsMFIs and their related activities are supporting the poor to access loans and enhance their living standards thus contributing towards poverty alleviation. Abdinur and Ondes (2022) focused on Somalia to establish the link existing between Islamic financing and ability of small businesses to perform. It was shown that owners of small businesses had belief that through Islamic financing, they had been position to access the funds needed for expansion and growth of their businesses. A direct and significant nexus was registered by Islamic financing and performance of businesses.

4.5 Impact of Conventional Microfinance Services on Poverty Alleviation

The subsequent sections detail the findings of descriptive and linear regression analysis on conventional MF services and poverty alleviation.

4.5.1 Descriptive statistics of conventional microfinance services

Table 4.10 is a summary of the descriptive statistics on conventional microfinance services.

Table 4.10: Descriptive Statistics of Conventional Microfinance Services

	Mean	Std. Dev
I can easily access micro-credit from the conventional MFI	3.80	.633
The micro-credit from conventional MFI has flexible repayment periods	3.64	1.122
The microcredit from conventional MFIs has allowed me to expand the business	3.71	.834
I save the business income with conventional MFIs	3.80	.706
I earn some interest on savings with conventional MFIs	3.92	.639
I can borrow micro-credit based on proportion of savings with the conventional MFIs	3.52	.890
I have taken a micro-insurance policy for this business from the conventional MFI	3.92	.712

The premiums for micro-insurance policy of the conventional MFIs are flexible	3.88	.550
Average	**3.77**	**.761**

Table 4.10 shows that clients had easy access to conventional MFI services (M=3.77, 0.761). Therefore, conventional MFIs provided microfinance services to their clients in Somalia.

This study is interested to determine if access to such services impacted on poverty alleviation. Respondents agreed that they earned some interest on savings with conventional MFIs (M=3.92. SD=.639). This means that unlike the IsMFIs, the conversional ones contributed towards poverty alleviation through the interests that clients received on their deposits (savings). This contributed towards maximization of the wealth of the clients of the conventional MFIs. This is contrary to conventional MFIs where Khan and Muhammad (2018) shared that a number of financial services conforming to Islamic finance norms like prohibition of interest are offered by Islamic MFIs. Similarly, Ahmad, Lensink and Mueller (2020) observed that IsMFIs with their strong adherence to prohibition of interest provide a relevant alternative. The study noted that respondents agreed on having taken micro-insurance policies for their business from the conventional MFI (M=3.92, SD= .712). This implies that the conventional MFIs allowed their customers to insurance risks that could cause losses to the businesses of the client in the event of their occurrence. These insurance covers that respondent had taken from the conventional MFIs attracted flexibility in payment of the premiums (M=3.88, SD=0.550). This shows that the clients enjoyed flexible insurance policies from the conventional MFIs that allowed them to transfer the risks of their business to the third parties. This concurs with Nabi et al. (2017) who shared that microfinance is a policy or program that focuses on provision of financial related services like insurance to the poor individuals residing both in rural as well as urban centers.

Respondents shared that they could easily access micro-credit from the conventional MFI (M=3.80, SD= .633). In fact, micro credit is one of the key services that are offered by the MFI to their clients. This is consistent with Makuny (2017) who was keen to determine how MFIs had impacted on eradication of poverty paying focus on Kenya. It emerged that

MFIs are strong tools in alleviation of poverty and that the poor were empowered with micro credit while being able to overcome a number of challenges that were inherent. The study established that conventional MFIs allowed their clients to save the incomes they generated from their businesses (M=3.80, SD=0.706). This implies that saving services were available to the conventional MFI clients. It is these savings that the clients saved with the conventional MFIs that generated returns in form of interests. It was noted that the conventional MFIs helped their clients to access micro credit facilities that were instrument in supporting the growth and expansion of the businesses (M=3.71, SD=0.834). This had positive contribution towards the overall revenues generated by the business owned by the clients of the conventional MFIs in Somalia.

This finding is supported by Makuny (2017) who noted that MFIs are strong tools in alleviation of poverty and that the poor were empowered with micro credit while being able to overcome a number of challenges that were inherent. The study noted that the micro-credit from conventional MFI had flexible repayment periods (M=3.64, SD=1.122) and this allowed the clients to borrow micro-credit based on proportion of their savings with the conventional MFIs (M=3.52, SD=0.890). This implies that conventional MFIs provide necessary conditions to allow clients access credit facilities that were instrumental for business purposes. Even after accessing the loan facilities, the clients of these conventional MFIs enjoyed flexible periods of repaying the loan even if this also attracted some interests. Thus, the terms of repaying the credit facilities outweighed the costs of repaying interests from the conventional MFIs in Somalia.

4.5.2 Linear regression results predicting conventional microfinance services on poverty alleviation

The findings of linear regression analysis on conventional MF services and poverty alleviation were determined and summarized as shown in Table 4.11.

Table 4.11: Linear Regression Results Predicting Conventional Microfinance Services on Poverty Alleviation

	Unstandardized Coefficients		Standardized Coefficients		
	B	**Std. Error**	**Beta**	**T**	**Sig.**
(Constant)	.306	3.758		-.081	.936
Conventional Microfinance Services	.649	.124	.638	5.243	.000
R=.638	**R^2=.407**	**Adjs. R^2=.393**	**F=27.493**	**Sig=.000**	

a. Dependent Variable: Poverty Alleviation

b. Predictors: (Constant), Conventional Microfinance Services

The findings in Table 4.11 show that conventional MFIs and poverty alleviation are strongly and positively correlated with each other (R=0.638). The study noted that 40.7% of variation in poverty alleviation in Somalia is explained by variation in conventional MF services offered to clients (R^2=0.407). Therefore, aside from the conventional microfinance services, there are still some other factors with an effect on alleviation of poverty that future studies should focus on.

This study hypothesized that:

Ho2: Conventional microfinance services have no significant impact on poverty alleviation in Somalia

From the findings in Table 4.11, the study established that (β=.649, $p<0.05$), which means that there was significant interplay. Thus, the study rejected hypothesis Ho2 and inferred that conventional MF services significantly impacts on poverty alleviation. These findings are consistent with Yasin (2020) who used Indonesia as the case to determine MF and the role in alleviation of poverty and pointed out that MF within has led to an improvement in income of the beneficiaries. Gupta and Sharma (2021) extensively reviewed literature on

MFIs and poverty within the context of countries in South Asia. It emerged that MFIs and reduction are positively connected although with varied extent on different categories of the poverty. Makuny (2017) was keen to determine how MFIs had impacted on eradication of poverty paying focus on Kenya. It emerged that the poor were empowered with micro credit while being able to overcome a number of challenges that were inherent. Through loans and other facilities offered by the MFIs, businesses had expanded their operations allowing beneficiaries to access better health and educate their children. The study conducted in Pakistan by Khan, Shaorong and Ullah (2017) observed that commercializing of MFIs is increasingly focusing on empowerment of women as well as alleviation of poverty. The study conducted in Nigeria by Taiwo, Aregan and Ailemen (2016) analyzed MF and alleviation of poverty. It emerged from analysis that most of the MF entities in Nigeria are modeled and operate under the principles of Grameen Bank. This involves placing much emphasis to the poor members of the society Wairimu (2019) did an assessment of loans advanced by MF and reduction of poverty. The specific focus of the study was on World Vision. It was observed that loan facilities that MFI advance contribute towards reduction of poverty. Mohamed and Fauziyyah (2020) did a study on IsMF towards alleviation of poverty. This was a systematic review of the existing studies. The inquiry observed that IsMF is among the tools that help in reduction poverty.

4.6 Impact of Conventional and Islamic Microfinance Services on Poverty Alleviation

The last objective assessed the impact of conventional and Islamic microfinance services on poverty alleviation. This objective was assessed through the research question where respondents were asked to indicate whether they believed conventional microfinance institutions or Islamic microfinance institutions exerted greater impact on poverty alleviation. The results were determined and summarized as shown in Table 4.11.

Table 4.12: Impact of Conventional and Islamic Microfinance Services on Poverty Alleviation

		t-test for Equality of Means						
							95% Confidence Interval of the Difference	
		T	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Poverty Alleviation	Equal variances assumed	-6.375	180	.000	-1.98095	.31073	-2.59410	-1.36780
	Equal variances not assumed	-10.118	178.086	.000	-1.98095	.19579	-2.36731	-1.59459
Islamic or Conventional MF Services	Equal variances assumed	-1.337	180	.183	-.11667	.08725	-.28883	.05550
	Equal variances not assumed	-1.319	66.157	.192	-.11667	.08843	-.29322	.05989

The study hypothesized that

Ho3: There is no statistical difference in the impact of conventional and Islamic microfinance services on poverty alleviation in Somalia

Based on the results in Table 4.12, the results on Islamic or conventional MFI were as follows ($t<1.96$, $p>0.05$) and indication that impact was insignificant. Thus, the study

accepted hypothesis Ho3. Thus, there is no significant difference in the impact of conventional and Islamic MFIs on poverty alleviation. In other words, both conventional and Islamic MFIs exert significant impact on poverty alleviation in Somalia. These findings are consistent with Uddin and Benabderrahmane (2019) who did a comparison of IsMF and conventional ones and their implication on alleviation of poverty. It emerged from results that there was availability and accessibility of loan facilities of the MFIs irrespective of the business categories and gender of the beneficiaries. On the contrary, Abdelkader and Salem (2013) observed that conventional MF are characterized with more development and widely spread around the world as compared to the IsMF. Ahmad, Lensink and Mueller (2020) did a study whose focus was on comparison of conventional and IsMF. It was further noted that conventional MFIs have stronger financial performance as compared to their IsMFI counterparts. Md and Benabderrahmane (2019) used a case of Bangladesh to appraise conventional and IsMFI and how they impact on alleviation of poverty. It emerged from analysis that there was availability and accessibility to credit facilities in the MFIs irrespective of the nature and type of business owned by the borrowers. The finding contradicts with the study done in Jordan by Bui (2013) that focused on how borrowers utilized MF among the Islamic and conventional institutions. The specific focus of the study was on Islamic and conventional borrowers differed on the basis of the decisions they made regarding investments and other projects. Differences were noted between the two groups of borrowers in respect to their micro-businesses although Islamic borrowers had low probability of investing in acquisition of consumer durable products.

4.7 Summary of the Tested Hypotheses and Inferences Drawn

Table 4.13 provides the hypotheses and the decision made after they had been tested using regression analysis.

Table 4.13: Summary of the Tested Hypotheses and Inferences Drawn

Hypothesis	Finding	Inference Drawn
Ho1: Islamic microfinance services have no significant impact on poverty alleviation in Somalia	β=.811, $p<0.05$	Reject Ho1
Ho2: Conventional microfinance services have no significant impact on poverty alleviation in Somalia	β=.649, $p<0.05$	Reject Ho2
Ho3: There is no statistical difference in the impact of conventional and Islamic microfinance services on poverty alleviation in Somalia	$p>0.05$, $t<1.96$	Accept Ho3

CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

Poverty eradication is a complex undertaking that require concentrated efforts from the involved actors. This assertion is consistent with the vicious cycle theory of poverty. Financial intermediation is a critical activity that aid in poverty eradication as demonstrated by the MFI. Traditionally, the remote and low-income members of the society who are most vulnerable to poverty have traditionally been financially excluded by large mainstream commercial banks. MFIs have come in to bridge this gap by providing customized micro credit, micro savings and micro insurance services to these vulnerable groups of the society. This has contributed towards eradication of poverty. By mobilizing savings in form of deposits from the clients, MFIs are able to advance the same to those investors in need for funds thus adequately realizing their financial intermediation role.

The first objective sought to determine the impact of Islamic microfinance services on poverty alleviation in Somalia. The study demonstrated that IsMFs provide credit, savings and insurance services to customers who were majorly the business owners. The impact of IsMFIs on poverty eradication was two-fold through the prohibition of interest rate. On one extreme end, prohibiting interests meant that clients enjoyed interest free micro credit facilities. Being interest free, the clients only repaid the principal amount of credit facility they had received from the Islamic MFI institution. On the other hand, given that savings made by Islamic MF clients did not earn any interest, this affected the ability of the clients to generate optimal returns from their savings and thus adversely impacting on poverty eradication. Therefore, sources of Islamic MFIs are provided by donations, charities and waqfs.

The focus of the second objective was to establish the impact of conventional microfinance services on poverty alleviation in Somalia. The results pointed that conventional MFI services were accessible to most clients in Somalia. These services just like the IsMIs covered micro credit, micro savings as well as micro insurance. The study established two mechanisms through which conventional MFIs impacted on poverty

alleviation in Somalia. The first mechanisms were that these institutions allowed clients to earn interest on their deposits that they had saved with the MFIs and thus maximizing on returns generated from their savings. On the downside, it emerged that customers accessed credit facilities that required repayment of the interest and the principal amount. Thus, the interest on micro credit facilities charged by the conventional MFIs increased the cost of accessing funds which negatively impacted on poverty eradication. However, the positive of this is that the repayment periods of the loan facilities were flexible and this probably outweighed the interests that increased the costs of accessing micro credit facilities from conventional MFIs.

The last objective sought to analyze the statistical difference between the impact of conventional and Islamic microfinance services on poverty alleviation in Somalia. From the results, the study established that there is no statistical difference in the impact of conventional and Islamic microfinance services on poverty alleviation in Somalia. Thus, MFIs have significant impact on poverty alleviation in Somalia irrespective of whether they are Islamic or conventional.

5.2 Implications and Practical Contribution of the Findings to Knowledge

This study has contributed towards understanding that MFIs are the engine of poverty alleviation efforts especially in emerging economies like Somalia. This means that putting in place strong mechanisms to encourage and promote MFIs would greatly contribute the recovery efforts of Somalia. The study has created more knowledge on understanding that both Islamic and conventional MFI complement rather than competing with each other as far as poverty alleviation in Somalia is concerned. The efforts of both of these institutions are critical in alleviation of poverty. The novel contribution of this study is that it has strived to bring out the comparison of these two categories of MFIs as this was missing in the existing body of knowledge.

Theoretically, the study has extended the views of the financial intermediation theory arguing that MFIs are key drivers of this complex phenomenon. Through their financial intermediation role, the MFIs are able to avail formal financial services like credit

facilities, savings and insurance to the traditionally excluded and vulnerable people. This in turn contributes towards breakage of the vicious cycle of poverty as supported in theory. As observed by the Vicious Cycle of Poverty Theory, low-income breeds poverty. However, MFIs come in to advance credit facilities to small business owners that help them to expand and improve their operation capacities. When prudently utilized, the loan facilities advanced by MFIs to the small business would contribute to an increase in revenue income generated and thus alleviating poverty.

5.3 Recommendations of the Study

Based on the findings, the study suggests the following recommendations:

i. The credit managers of the MFIs in Somalia should ensure there is equality in access to microcredit, micro savings and micro insurance savings among male and female clients.
ii. The Central Bank of Somalia should promote sound regulations and environment that would encourage creation of more MFI institution now that they have been proven to have significant impact on poverty alleviation in recovering countries like Somalia.
iii. The marketing managers of the MFIs in Somalia should increase more awareness for more customers to take MFI services especially those in rural and remote areas.
iv. The management of conventional MFIs should work closely with the Central Bank so that the costs of accessing credit facilities are partly subsidized.

5.4 Limitations of the Study

The study was limited one specific country which was Somalia that is still emerging and is faced with challenges of availability of verified secondary data. It would have been good to utilize secondary data especially with regard to the variable of poverty alleviation but there was a limitation of availability and access to such data in Somalia. Thus, interpretation and application of these findings outside the context of Somalia should be done with great caution.

5.5 Areas for Further Research

Further research can be conducted taking a relatively larger sample of say the entire Sub-Saharan Africa (SSA). This will provide room for comparison of the results to make informed decisions. Furthermore, further studies should explore how MFIs contribute for instance to performance of the client businesses or towards the growth of the economy aside from poverty eradication. A comparison can also be made between Islamic commercial banks insurance firms and the conventional ones and their contribution towards poverty eradication or economic growth.

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APPENDICES

Appendix I: Questionnaire for Islamic MFIs Clients

This question seeks to obtain your responses on the tittle **IMPACT ANALYSIS OF CONVENTIONAL AND ISLAMIC MICROFINANCE ON POVERTY ALLEVIATION IN SOMALIA.** The questionnaire targets clients of conventional and Islamic Microfinance Institutions in Mogadishu City. Kindly note that any response you will share will only be used for academic purpose.

SECTION A: GENERAL INFORMATION

1. Kindly indicate your gender

Male ( )

Female ( )

2. Please, indicate your age

Less than 20 years ( )

21-30 years ( )

31-40 years ( )

41-50 years ( )

Over 51 years ( )

3. Kindly tick your major source of income/main economic activity

Employment ( )

Business ( )

Other…….. Specify

4. How long have you been a client with your Microfinance Institution in Mogadishu?

Less than 3 years ( )

4-7 years ( )

8-10 years ( )

Over 11 years ( )

SECTION B: MICROFINANCE SERVICES

5. Below are a number of statements on the services offered by your MFI. Kindly indicate the extent of your agreement using a scale of 1-5, where 1-strongly disagree, 2-disagree, 3-undecided, 4=agree and 5-strongly agree.

	Strongly disagree	**disagree**	**undecided**	**Agree**	**Strongly agree**
I can easily access micro-credit from the Islamic MFI without interests					
The micro-credit from Islamic MFI has flexible repayment periods					
The microcredit from Islamic MFIs has allowed me to expand the business					
I save the business income with Islamic MFIs					
I don't earn any interest on savings with Isamic MFIs					
I can borrow micro-credit based on proportion of savings with the Islamic MFIs					
I have taken a micro-					

insurance policy for this business from the Islamic MFI					
The premiums for micro-insurance policy of the Islamic MFIs are flexible					

SECTION C: POVERTY ALLEVIATION

6. Below are a number of statements on poverty alleviation. Kindly indicate the extent of your agreement using a scale of 1-5, where 1-strongly disagree, 2-disagree, 3-undecided, 4=agree and 5-strongly agree.

	Strongly disagree	**disagree**	**undecided**	**agree**	**Strongly agree**
The proceeds from microcredit facilities from Islamic MFIs have enabled me to pay school fees for my children to achieve better quality of life hence poverty eradication					
Microcredit facilities from Islamic MFIs have allowed my children to have access to quality education for self-reliance hence poverty eradication					
The ability to pay hospital bills for my family from the proceeds of microcredit facilities from Islamic MFIs has contributed towards poverty eradication					

Micro-insurance services from Islamic MFIs have allowed this business to generate steady income to eradicate poverty					
Adequate capitalization of this business due microcredit facilities from Islamic MFIs has increased salaries paid to staff for improved living standards hence poverty eradication					

7. Do you believe Islamic Microfinance Institutions exert greater impact on poverty alleviation as compared to the Conventional Microfinance Institutions?

Yes ( )

No ( )

THANK YOU FOR YOUR COOPERATION AND TIME

Appendix II: Questionnaire for Conventional MFIs Clients

This question seeks to obtain your responses on the tittle **IMPACT ANALYSIS OF CONVENTIONAL AND ISLAMIC MICROFINANCE ON POVERTY ALLEVIATION IN SOMALIA.** The questionnaire targets clients of conventional and Islamic Microfinance Institutions in Mogadishu City. Kindly note that any response you will share will only be used for academic purpose.

SECTION A: GENERAL INFORMATION

1. Kindly indicate your gender

Male ( )

Female ( )

2. Please, indicate your age

Less than 20 years ( )

21-30 years ( )

31-40 years ( )

41-50 years ( )

Over 51 years ( )

3. Kindly tick your major source of income/main economic activity

Employment ( )

Business ( )

Other…….. Specify

4. How long have you been a client with your Microfinance Institution in Mogadishu?

Less than 3 years ( )

4-7 years ( )

8-10 years ( )

Over 11 years ( )

SECTION B: MICROFINANCE SERVICES

5. Below are a number of statements on the services offered by your MFI. Kindly indicate the extent of your agreement using a scale of 1-5, where 1-strongly disagree, 2-disagree, 3-undecided, 4=agree and 5-strongly agree.

	Strongly disagree	**disagree**	**undecided**	**Agree**	**Strongly agree**
I can easily access micro-credit from the conventional MFI					
The micro-credit from conventional MFI has flexible repayment periods					
The microcredit from conventional MFIs has allowed me to expand the business					
I save the business income with conventional MFIs					
I earn some interest on savings with conventional MFIs					
I can borrow micro-credit based on proportion of					

savings with the conventional MFIs					
I have taken a micro-insurance policy for this business from the conventional MFI					
The premiums for micro-insurance policy of the conventional MFIs are flexible					

SECTION C: POVERTY ALLEVIATION

6. Below are a number of statements on poverty alleviation. Kindly indicate the extent of your agreement using a scale of 1-5, where 1-strongly disagree, 2-disagree, 3-undecided, 4=agree and 5-strongly agree.

	Strongly disagree	**disagree**	**undecided**	**agree**	**Strongly agree**
The proceeds from microcredit facilities from conventional MFIs have enabled me to pay school fees for my children to achieve better quality of life hence poverty eradication					
Microcredit facilities from conventional MFIs have allowed my children to have access to quality education for self-reliance hence poverty eradication					
The ability to pay hospital bills for					

my family from the proceeds of microcredit facilities from conventional MFIs has contributed towards poverty eradication					
Micro-insurance services from conventional MFIs have allowed this business to generate steady income to eradicate poverty					
Adequate capitalization of this business due microcredit facilities from conventional MFIs has increased salaries paid to staff for improved living standards hence poverty eradication					

7. Do you believe Conventional Microfinance Institutions exert greater impact on poverty alleviation as compared to the Islamic Microfinance Institutions?

Yes ( )

No ( )

THANK YOU FOR YOUR COOPERATION AND TIME

Appendix III: List of Islamic and Conventional MFIs

A) ISLAMIC MFIs

1. Kaah International Microfinance Services KIMS,
2. MicroDahab
3. Kaaba Microfinance
4. Salam Somali Bank
5. Dahabshiil International Bank
6. Preimer Bank

B) CONVENTIONAL MFIs

1. Western Union
2. Somalia National Bank

C) INFORMATION ABOUT ISLAMIC AND CONVENTIONAL MFIs IN SOMALIA

MFIs operating in Somalia and the information about their activities are given below:

1. **Kaah International Microfinance Services KIMS**

KIMs is a Somali market that is the first to make or participate in financing for companies in the country or small businesses in the country that come with a vision or creative business by spending about 14 million and benefiting from more than 14,000 clients. It was established in the year 2013 and has always applied or offered Islamic microfinance. At present KIMS has an active portfolio of more than 4,150 clients worth $3.8 million.

Kaah International Microfinance Services (KIMS) is an international Somali Microfinance Institution that provides Islamic Sharia-compliant financial services. It has a major objective to contribute to poverty reduction in providing a further increase to access of financial services for over seventy thousand people of whom thirty-five thousand comprise women.

The Microfinance is committed at disbursing credit worth UD 70 million therefore providing job opportunities to over 80,000 people. According to its expansion strategy, the firm is targeting to expand to reach rural population and provide business and financial literacy to their customers.

The firm has a mission to contribute to social economic development of the Somali people and to achieve this, it has an objective of providing quality diversified microfinance services, providing savings, financing of small and micro enterprises, and to embrace Islamic Sharia principles.

The Microfinance has filled the gap brought about by the long years of civil war in Somalia that only allowed the Somali people to depend on the diaspora remittances.

The model adopted provides, an innovative model in tackling the financial needs of the Somali people where low income and economically active people is the major target making it to be the leader in the provision of Sharia Compliant Microfinance services (*Kaah International Microfinance Services (KIMS)*, 2022).

Mission

To support small and micro entrepreneurs and individuals. especially women and youth, through East Africa to become self-reliant and improve their quality of life by providing high quality, diversified and sustainable financial services that meet their needs.

Vision

All vulnerable population in East Africa have access to financial services to become self – reliant.

Objectives

By 2026 KIMS Microfinance will achieve the following business objectives:

- ✓ Operational Objectives
- ✓ Social Objectives

Operational activities Kaah International Microfinance providing very small loans to poor people or nations in order to help start a business or fund a social project.

Social Objectives make contributions to monetary and social improvement for Somalis through supplying top notch diverse microfinance offerings, imparting savings, financing of small and micro-organizations and embracing Islamic Sharia principles, whilst persevering with to occupy a pioneering function with inside the monetary sector.

2. MicroDahab

Micro-Dahab MFI is a member of the Dahabshiil Group, founded as a way for Dahabshiil groups to give back to the communities. MicroDahab MFI was founded in 2014, to create employment opportunities for youth, women, SME's education, agriculture, livestock and dairy, manufacturing and renewable energy to fight and reduce poverty.

Micro-Dahab has worked with the following external partners:

Local NGO's, Central Bank of Somaliland/Somalia, and SHURAAKO (Group of companies).

MicroDahab was founded in 2014 and serves the Somali people in all the Somali territories. Its major objective is to provide job opportunities to the youth, women, the productive sector and small businesses. It is owned by Dahabshiil family and it is the owner's way of giving back to the Somali community by reducing vulnerability and guaranteeing sustainability of growth.

The financial model adopted aims at providing clients with asset financing solutions rather than issuing money directly to the customers.

To empower women, Micro-Dahab has increased the access to financial services as evidenced by the over nine thousand women who have been financed by the firm.

It adopts a simple method of financing the women, the firm gives a small loan to a hardworking woman to start or expand the business out of which the profit achieved is used to fulfill her business dream. In case the business is successful, she pays back the

loan to the firm and the firm uses the repaid loan to nature the business of other women with a similar dream.

The firm also provides investment opportunities to the Youth in Somalia by providing the startup capital required for their business growth and development hence providing job opportunities to them (*Home*, 2022).

Mission

They are all about enabling people in the horn of Africa to improve their quality of life with inclusive sustainable and innovative financial solutions.

Vision

Micro-Dahab contributes to the economic and social development of Somali regions in order to make the horn of Africa a poverty and unemployment free society.

Core Values

- ✓ Customer focus
- ✓ Innovation
- ✓ Integrity
- ✓ Excellence
- ✓ Teamwork

3. Kaaba Microfinance

Kaaba Micro Finance Institution's (K-MFI) is Kaaba Microfinance is one of the MFIs in Somalia which is very active or participates in how to eradicate poverty in the country by giving most of its financing to the weak women who cannot afford small business to participate or to support their children in their education. Kaaba Micro Finance Institution's (K-MFI) seeing the current situation in the country, has given full funding to vulnerable women to reduce poverty in the country.

KAABA microfinance combines competitive returns to investors with cost efficient, professional supplementary services that maximize the social impact of access to finance.

They act as microfinance institutions (MFIs) serving the world's poorest and providing them with access to credit. The dedicated employees of these institutions (MFIs) are their partners in this field. In general, a microcredit is a small loan with no formal guarantee or contract and the lowest possible interest rate. MFI partners may provide mortgagors with additional job training, healthcare, or other benefits.

This is a microfinance institution that strengthens the economic base of the low-income groups in Somaliland (one of the states of Somalia) in creating self-employment for people living in poverty. It has been in operations since 1991 and channels credit to household through women who are vulnerable in society through their support group networks(*Kaaba Microfinance Institution (K-MFI)*, 2022) .

This is a microfinance institution working to strengthen the economic base of low-income groups in Somaliland (one of the Somali states) and create self-employment opportunities for people living in poverty. Microfinance stands as a way of empowering the poor to be motivated to get large amounts of funding and it has been working in the country since 1991 until now (K-MFI, 2022).

4. Salam Somali Bank

SSB is the largest and most diversified bank in the country, which was founded in 2009 and participates in the development of the country by rapidly investing in small businesses whose business or innovation is lacking. encourage their creativity. On the other hand, SSB has expanded its financing to small businesses. The bank is licensed under the Central Bank of Somalia.

SSB is trusted by small business owners across the country and operates in a professional manner in accordance with the laws and even provides trainings to small business owners with more than 10 years of experience in banking and investment management and financing.

SSB is the largest bank in the country, which has more than 15 branches in the capital of the country, which facilitates the banking operations and the bank's jobs, which is the first of the financing, and its financing is applied in Islamic financing.

This is the first privately owned bank to operate in Somalia. It offers a wide range of services and has branches in major cities of Somalia(*Home | Salaam Somali Bank*, n.d.) .

CORPORATE SOCIAL RESPONSIBILITY [CSR]

Since Salaam Somali Bank's founding, they have engaged in a range of community programs and social responsibility initiatives, including:

- ✓ They directly employ more than 400
- ✓ They support young people starting their own businesses.
- ✓ They Provide Internship Opportunities for Students
- ✓ They Provide Workplace Trainings
- ✓ Free microcredit for women and young people
- ✓ Sponsorships of social events

The first bank in Somalia to conduct CSR on a nationwide scale is Salam Somali Bank, which is privately owned.

In order to foster economic growth and competition, Salaam Somali Bank (SSB) has offered free financing to small businesses in the nation's capital.

Speaking during the event, the recipients of Salaam Somali Bank's free microfinance expressed their gratitude to the bank for the crucial money that would help them realize their entrepreneurial goals.

Salaam Somali Bank has been praised for its eleven years of service for its dedication to enhancing the lives of Somalis via investment and a free microfinance fund established to help neighbourhood business owners.

Additionally, a private bank with headquarters in Mogadishu aids business owners by offering finance for start-up and expansion projects as well as active assistance for young and female entrepreneurs in particular.

In Somalia, which has seen decades of violence and starvation, the fund seeks to support entrepreneurs with compelling vision in their efforts to address significant issues and develop marketable solutions.

5. Dahabshil International Bank

Dahabshill Bank is a bank situated in Hargeisa Somaliland and in Mogadishu also and provides international money transfer solutions to the Somali people .It is the most widely known Somali bank with a global outlook because of the international money transfer solutions that it offers to the clients especially to the Somali diaspora members that provide remittance to their family members back at home (Suleiman et al., 2015).

Due to a lack of access to capital, Dahabshil Bank International was predicted to fill a need in the Somali peninsula's market for Islamic financial services. To help entrepreneurs and future executives launch and expand their businesses, they want to provide accessible and inexpensive forms of Islamic finance. Licensed by the Central Banks of both Somaliland and Somalia, Dahabshil Bank International (DBI) is a fully functional sharia bank. East Africa, the Gulf region, Western Europe, and North America are the major regions of interest for the bank, which was established in 2012.

In order to provide their customers with cost-effective goods and services, their bank works with top-notch after-sales support, the strictest Sharia ethical guidelines, and cutting-edge automation. DBI is crucial, reliable, and successful. Their devoted staff and networks are committed to provide their consumers sharia-compliant financial solutions that are easily accessible and reasonably priced. The bank has grown remarkably since its start in terms of balance sheet size and system, and the rising demand for their goods is proof of their development.

Dahbo Ladies Banking was launched to cater exclusively to DBI clients. Dahabo is a Somali name meaning “gold” which translates to the value they have for their female customers.

At Dabo, female clients receive financial solutions tailored to create real value for their lifestyle, family and business.

Vision

To contribute to the region's and beyond's economic success as the chosen provider of financial services.

Mission

To provide comprehensive, customer-focused financial services by using our in-depth understanding of the local market, our financial know-how, the right technology, and our connections, so enhancing the economic success of our customers and stakeholders.

6. Preimer Bank

Premier bank’s Islamic section also offers Microfinance. This service is new to the clients and the customer for this service are not many. It has a big impact on Microfinance sector and has an extension in all the countryside. During Eid celebration the bank help the poor through Qard Hasanah (lending without interest).

During the last Eid of 2022 they have helped and distributed to the poor through food and tokens in Baydhabo, Bay region of Somalia. The poor people have benefited from the service greatly. The bank also offers credit finance to the citizens as they consider the country's situation from time to time.

They also take part in constructing social amenities for the youths and women groups. They are active in building football fields. They do construct and let the teams pay at a later time through small installment which are the social activities that the provided to the society.

More so the bank has participated in the project of constructing road. The contract was awarded to Fathi construction company which is famous for construction roads and buildings. They are restored the towns dignity and made it more accessible to the public through road construction.

The financial solutions services offered by Premier bank includes, Retail Banking, Business and Corporate Banking, Mobile and Internet banking, ATM Banking, SWIFT transfers,
International money transfer. This is also a privately owned bank in Somalia(*Home*, 2020).

Premier Bank is a privately owned Sharia compliant commercial bank incorporated in Somalia in 2013 and licensed by the Central Bank of Somalia in 2014. They believe in the promise of a new Somalia. They all have a role to play in rebuilding Somalia. They can make a difference. It is this philosophy that guides their efforts to help (in their own small way) rebuild Somalia and encourage economic and community development.

Premier Bank was established in Somalia in 2013 and received a license from the Central Bank of Somalia in 2014. It is a privately held commercial bank that complies with Sharia law. They trust that a new Somalia would fulfill its promise. They are all necessary to the reconstruction of Somalia. They have the power to influence things. This idea serves as the foundation for their attempts to support community and economic growth while also aiding in Somalia's reconstruction (in their own modest manner).

They are able to fulfill and serve the needs of Somalia's thriving economy thanks to their extensive understanding of local finance needs and our introduction of advanced banking procedures. They provide all-inclusive, one-stop financial solutions to our clients in Somalia, which include corporate and SME firms, private people, and governmental and non-profit organizations.

Their array of financial services includes retail banking, business and corporate banking, mobile and internet banking, ATM banking, SWIFT transfers, international money transfers, and much more.

Mission

To be the best Islamic bank that customers will ever want.

Core Values

- ✓ Values: They cultivate ties with customers. They are qualified. They provide top-notch service.
- ✓ They work together, or "pulling together." They exchange data. They believe in each other.
- ✓ They are transparent and up front. Being truthful, they. They follow Shariah guidelines.

7. Western Union

The Central Bank of Somalia granted WESTERN UNION BANK (WUB) a license to operate as a microfinance bank in 2019. As a subsidiary of Capital Field Investment (CFI), which has been around for more than 4 years, WUB began conducting commercial activities in February 2020. WUB was founded to conduct the business of financial services, including private investments, consulting services, and general enterprises. Over the years, the firm has formed subsidiary companies that operate complementary operations in a variety of industries thanks to varied growth and development.

WUB is run by a group of experts, and its board is comprised of notable and accomplished individuals. Together, they have guided the Capital Field Group to the prominent position it holds in the market today. Since its establishment, WUB has worked relentlessly to set the standard for other microfinance organizations to follow by providing services of distinction, products of great quality, and first-rate customer support. The bank is well-positioned to serve Somalia's small and microbusinesses with financial services.

Along with other financial service providers operating in Somalia, including Western Union Bank (WUB), Western Union Bank is a partner with Western Union, an international money transfer company. The company's major goal is to offer money transfer services to consumers from throughout the world, particularly Somalis living abroad who want to send money home.

In the other hand Western Union Bank (WUB) provides conventional microfinance services even helps the production of the country its deeply provides microfinance services to the farmers and general trading companies those are located and works as international companies.

The headquarters are situated in the United States of America (*Western Union | Find a Money Transfer Location Near You*, 2022) and in Somalia its located Mogadishu Somalia.

8. Somalia National Bank

Somali National Bank is a commercial bank that is licensed by the government and works under Central Bank of Somalia. The bank works like other banks that operate in other countries. It offers conventional and Islamic Microfinance to the citizens who qualify for the service.

The bank works in conjunction with other small Microfinance institutions and offers required help. The bank also offers opportunity to the poor to invest by giving them a low interest loan at a rate of 8% per annum. The bank also gives loan to the farmers. The Microfinance service is extended to the farmers by giving an opportunity to purchase machinery and other farm equipment and allow the farmers to pay slowly at a small interest rate.

In addition, the bank also gives finance to those young individuals with a good business idea by financing their startup and guiding them. The bank also finances various project that entails at promoting social activities in the community.

The Central Bank of Somalia was established in 1968 as the country's financial regulatory institution. After years of insecurity, fragility, and economic decline due to the collapse of the state in 1991, The Central Bank was revived and strengthened with the CBS Act of 2011. The Act laid a new foundation to regulate and boost the country's finance sector and facilitate economic growth.

The Central Bank of Somalia is undertaking a transformative journey to meet its core functions and be a policy-oriented institution. This has led to drafting a strategic plan for

the bank that charts the progress to be achieved between 2020-2024. There is also a transitional plan that provides the roadmap to restructure the bank and reform the financial sector of Somalia. The strategic goals include the establishment of monetary policies and regulatory frameworks that support financial sector reform and stability.

The bank has recruited highly qualified senior executives to head the 3 functional groups that have been created as part of the restructuring plans. The bank has also established various policies such as Human Resource policy, Communication Strategy, IT policy and procurement policy, laying the foundation for CBS to operate as a policy-oriented institution. Committee-based governance structures are also being created, forging the path for improved governance and transparency.

The following table summarizes the sources of funds and products of the 8 MFIs in Somalia:

NAMES OF MFIs	**KEY FUNDING**	**KEY PRODUCTS**
1. KAAH INTERNATIONAL MICROFINANCE SERVICES KIMS,	✓ Savings. ✓ Awqaf ✓ Other charities	✓ Education training ✓ Consultant
2. MICRO-DAHAB	✓ Savings. ✓ Loans ✓ Awqaf ✓ Other charities	✓ Consultant ✓ Volunteer saving
3. KAABA MICROFINANCE	✓ Loans ✓ Awqaf ✓ Other charities	✓ Education training ✓ Consultant
4. SALAM SOMALI BANK	✓ Loans ✓ Awqaf ✓ Other charities	✓ Loans ✓ Volunteer saving ✓ Education training

5. DAHABSHIIL BANK	✓ Savings. ✓ Loans ✓ Awqaf ✓ Other charities	✓ Loans ✓ Volunteer saving ✓ Education training
6. PREIMER BANK	✓ Loans ✓ Awqaf ✓ Other charities	✓ Loans ✓ Volunteer saving ✓ Education training
7. WESTERN UNION	✓ Deposits ✓ Investment Fund. ✓ Loans	✓ Loans ✓ Volunteer saving ✓ Education training
8. SOMALIA NATIONAL BANK	✓ Deposits ✓ Investment Fund. ✓ Loans ✓ Government Fund	✓ Loans ✓ Volunteer saving ✓ Education training

List of the names of the MFIs and their number of the clients:

NAME OF MFIs	**Provides**	**Quotes of respondents**
1. Kaah International Microfinance Services KIMS	Only microfinance services Type: Islamic MF	35
2. Micro-Dahab	Only microfinance services Type: Islamic MF	32

3. Kaaba Microfinance	Only microfinance services Type: Islamic MF	13
4. Salam Somali Bank	Both microfinance and bank services Type: Islamic MF	38
5. Dahabshil International Bank	Both microfinance and bank services Type: Islamic MF	16
6. Preimer Bank	Both microfinance and bank services Type: Islamic MF	6
7. Western Union Bank	Both microfinance and bank services Type: Conventional MF	20
8. Somalia National Bank	Both microfinance and bank services Type: Conventional and Islamic MF	22
	TOTAL (number of respondents)	182

The List of Microfinance institutions and their clients:

1. **Kaah International Microfinance Service**

No	**Name of clients**	**Function**	**Headquarter**
1.	Guul Group	Livestock export	Waran Cade Road, Mogadishu-Somalia

2.	Aydarus & Brothers General Trading Co	Fertilizing	Bakaaro Street, Mogadishu-Somalia
3.	Gutale Livestock Trading Company	Livestock export	Heart Street, Mogadishu-Somalia
4.	Future Marketing and Consulting comp	Marketing	Bakaaro Market, Mogadishu-Somalia
5.	Nucmaan Group of Companies	Printing Machines	Bakaaro Market, Mogadishu-Somalia
6.	Iftin company	Fertilizing	Wartanabada, Mogadishu-Somalia
7.	Wadi Pharmaceutical Company Limited	Medicine	Heart Street, Mogadishu-Somalia
8.	Ulsite Drugs Company	Medicine	Wartanabada, Mogadishu-Somalia
9.	Bile General Trading company	Clothes (Wholesaler)	Wartanabada, Mogadishu-Somalia
10.	Alnoor General Trading	Textile	Km4, Mogadishu-Somalia
11.	Mursade Leathers CO	Leather export	Wartanabada, Mogadishu-Somalia
12.	Dalmar Meat Company	Selling Meat	Hamarweyne, Mogadishu-Somalia
13.	Ileys Suppliers Inc	Agent	Dabka street, Mogadishu-Somalia
14.	Al-khairat Group of Company	Wholesaler	Maka Al-Mukarama,

			Mogadishu-Somalia
15.	Alnour General Trading	Fabrics	Dharkenley, Mogadishu-Somalia
16.	Cade Madaxey LTD	Textile	Bakaro Market, Mogadishu-Somalia
17.	Al Nasri Group	Fishing	Liido, Mogadishu-Somalia
18.	Alla Aamin Spare Parts Com	Spare parts	Blacksea, Mogadishu-Somalia
19.	Moumin Group of Companies	Manufacturer	Bakaaro Market, Mogadishu-Somalia
20.	Deris Uroone	Retailer	Oodweyne, Mogadishu-Somalia
21.	Kaboos Inc	Shoes Seller	Wartanabada, Mogadishu-Somalia
22.	Maslax Torongo Trading Company	Outfits	Dayactirka, Mogadishu-Somalia
23.	Malin General Trading Com	Manufacturing	Shibis, Mogadisu-Somalia
24.	Hawadle LTD	Wholesaler	Bakaaro Market, Mogadishu-Somalia
25.	Yusro Detergent Industry Cor	Manufacturer	Wartanabada, Mogadishu-Somalia
26.	Israac Group	Export	Hamarjajab, Mogadishu-Somalia

27.	Baxdo Cosmetics	Cosmetics	Baarubax, Mogadishu-Somalia
29.	Jaamac Jingile Trading Company	Manufacturer	Km4, Mogadishu-Somalia
30.	Durdur General trading Company	Wholesaler	Bakaaro Market, Mogadishu-Somalia
31.	Ansar Corporation Limited	Supplier	Bakaaro Market, Mogadisu-Somalia
32.	Alfadli Livestock Trading LTD	Livestock Export	Suuqbacaad, Mogadishu-Somalia
33.	Ileys Inc	Inter. Data Seller	Taleh, Mogadishu-Somalia
34.	Madiina Logistics	Logistic	Wartanbada, Mogadishu-Somalia
35.	Kaawa Godey Inc	Agent	Taleh, Mogadishu-Somalia

KIMS's microfinance program— KIMS is Islamic Microfinance institution that provide responsible financial services that enable low-income entrepreneurs and small business owners to invest in their future specially the poor people in the country.

Also is delivering loans and offering savings and other financial services in some of the most remote markets in the country, KIMS empowers people to start their own businesses, create jobs and improve their quality of life.

2. Micro-Dahab

No	**Name of clients**	**Industry**	**Headquarter**
1.	Eagle Company	Wholesaler	Wartanbada, Mogadishu-Somalia

2.	Dhiblawe Travel and Tourism	Agency	Bakaaro Market, Mogadishu-Somalia
3.	Hodman General Trading	Export	Wartanbada, Mogadishu-Somalia
4.	Baale Trading Company	Aluminium	Bakaaro Market, Mogadishu-Somalia
5.	Wadani Trading CO LLC	Utensils	Hamarweyne, Mogadishu-Somalia
6.	Awale Yare Spare Part	Spare Parts	Blacksea, Mogadishu-Somalia
7.	Benadir Tailor & Textiles	Textile	Benadir, Mogadishu-Somalia
8.	Canuuni General Trading CO	Retail	Bakaaro Market, Mogadishu-Somalia
9.	Anwar Construction	Construction	Bakaaro Market, Mogadishu-Somalia
10.	Dharbadane	Clothing	Maka Almukarama, Mogadishu-Somalia
11.	Bilan Beauty	Cosmetics	Hamarweyne, Mogadishu-Somalia
12.	Dheyman Restaurent	Food	Baarubax, Mogadishu-Somalia
13.	Faracadde Gasoline & Petroleum	Petrol	Wartanbada, Mogadshu-Somalia

14.	Shaqaalaha Shopping centre	Shopping	Maka ALmukarama, Mogadishu-Somalia
15.	Jaabir Kalluun	Fishing	Liido, Mogadishu=Somalia
16.	Dun & Cirbad Shop	Retail	Yaqshid, Mogadishu-Somalia
17.	Habarawe Limited Inc	Agent	Bakaaro, Mogadishu-Somalia
18.	Waalmuge Trading Company	Production	Wartanbada, Mogadishu-Somalia
19.	Gaabshe Electronics	Electronics	Bakaaro Market, Mogadishu-Somalia
20.	Dabcasir Consulting Co	Consultancy	Bakaaro Market, Mogadishu-Somalia
21.	Madaale Cosmetics	Cosmetics	Bakaaro Market, Mogadishu-Somalia
22.	Udug General Trading	Wholesales	Km4, Mogadishu-Somalia
23.	Canshuur Trading	Furniture	Daruselam, Mogadishu-Somalia
24.	Xamar Perfumes and Cosmetics	Body Care Products	Maka Almukarama, Mogadishu-Somalia
25.	Haashim Heal International	Agriculture Supplies	Hamarweyne, Mogadishu-Somalia
26.	Qabyo Livestock	Livestock	Bakaaro Market, Mogadishu-Somalia

27.	Habar Eji Genral Trading Company	Building	Maka Almukarama, Mogadishu-Somalia
29.	Laandheere Ltd	Wholesaler	Bakaaro Market, Mogadishu-Somalia
30.	Reer Cade Group	Dealers`	Bakaaro Market, Mogadishu-Somalia
31.	Faahiye Supermarket	Supermarket	Km5, Mogadishu-Somalia
32.	Maandeeq Electronics	Electronics	Bakaaro Market, Mogadishu-Somalia

It serves the Somali people in all the Somali territories. Its major objective is to provide job opportunities to the youth, women, the productive sector and Small businesses. It is owned by rich people and it is the owner's way of giving back to the Somali community by reducing vulnerability and guaranteeing sustainability of growth.

The financial model adopted aims at providing clients with asset financing solutions rather than issuing money directly to the customers.

Dahabo is the microfinance services to empower women, Micro-Dahab has increased the access to financial services as evidenced by the over nine thousand women who have been financed by the firm.

3. Kaaba Microfinance

No	**Name of clients**	**Industry**	**Headquarter**
1.	Nootaayo Dashame	Noter	Bakaaro Market, Mogadishu-Somalia
2.	Shidane Logistics	Logistic	Bakaaro Market,

			Mogadishu-Somalia
3.	Soomar Co	Online shpopping site	Taleh, Mogadishu-Somalia
4.	Naasir Electronics	Electronics	Bakaaro Market, Mogadishu-Somalia
5.	Al Saxaaba Pharma	Medicine	Oodwenye, Mogadishu-Somalia
6.	Bulaale Barber	Barber	Labo Dhagax, Mogadishu-Somalia
7.	Qodxaaleey Livestock	Livestock	Bakaaro Market, Mogadishu-Somalia
8.	Alnuur General Trading Company	Wholesaler	Wartanabada, Mogadishu-Somalia
9.	Jarere Chicken and Chips	Food	Maka Almukarama, Mogadishu-Somalia
10.	Calooleey Ltd	Export	Bakaaro Market, Mogadishu-Somalia
11.	Almasal Group	Farming	Afgoye, Mogadishu-Somalia
12.	Ceel Cali Travel Agency	Travel Agency	Bakaaro Market, Mogadishu-Somalia
13.	Shantaay Cosmetics	Cosmetics	Benadir, Mogadishu-Somalia

4. Salam Somali Bank

No	Name of clients	Industry	Headquarter
1.	Laas Coffee	Coffee Shop	Km4, Mogadishu-Somalia
2.	Golsan Sports and Entertainment	Sports	Benadir, Mogadshu-Somalia
3.	Astaan TV	Broadcasting	Taleh, Mogadishu-Somalia
4.	Alburuuj Construction	Construction	Bakaaro Market, Mogadishu-Somalia
5.	Farayare Electronics	Electronics	Bakaaro Market, Mogadishu-Somalia
6.	Barakaat Bookshop	Bookshop	Bakaaro Market, Mogadishu-Somalia
7.	Kaamil Computers	Selling computers	Bakaaro Market, MogadishuSomaliC
8.	Becco Powering Somalia	Powering	Bakaaro Market, Mogadishu-Somalia
9.	Gobzad Co	Onlie Shopping	Taleh, Mogdishu-Somalia
10.	Zeytun Restaurent	Food	Bakaaro Market, Mogadishu-Somalia
11.	Kulane Car Trading Co	Cars	Taleh, Mogadishu-Somalia
12.	Som Meat	Meat	Maka Almukarama, Mogadishu-Somalia
13.	Hayaat Super Market	Supermarket	Taleh, Mogadishu-Somalia

14.	Carwo Alkowther	Shopping centre	Bakaaro Market, Mogadishu-Somalia
15.	Colow General Trading Company	Manufacturer	Bakaaro Market, Mogadishu-Somalia
16.	Universal Stationary	Stationary	Bakaaro Market, Mogadishu-Somalia
17.	Carwo City centre	Automobile	Wartanabada, Mogadsihu-Somalia
18.	Ugbaad Trading Inc	Export	Bakaaro Market, Mogadishu-Somalia
19.	Badar Computers and Electronics	Electronics	Bakaaro Market, Mogadishu-Somalia
20.	Al Azhar Marketing Group	Marketing	Wartanabada, Mogadishu-Somalia
21.	Maryooley Fitness Centre	Body Building	Benadir, Mogadishu-Somalia
22.	Somcable	Internet Data Seller	Bakaaro Market, Mogadishu-Somalia
23.	Shaadiyo Shopping	Shopping Centre	Wartanabada, Mogadishu-Somalia
24.	Geedi Construction CO	Construction	Wartanabada, Mogadishu-Somalia
25.	Maaweeelo & Madadaalo Entertainment	Entertainment	Km4, Mogadishu-Somalia
26.	Badbaado Group	Wholesale	Bakaaro Market,

			Mogadishu-Somalia
27.	Cimraan General Trading	Wholesale	Bakaaro Market, Mogadishu-Somalia
29.	Maaxi Electronics	Electronics	Bakaaro Market, Mogadishu-Somalia
30.	Bood Travel Agency	Agency	Taleh, Mogadishu-Somalia
31.	Guryosamo Consultancy	Consultancy	Bakaaro Market, Mogadishu-Somalia
32.	Qoobey Chicken and Chips	Food	Wartanabada, Mogadishu-Somalia
33.	Mogadishu Sea Food Co	Sea Food	Taleh, Mogdishu-Somalia
34.	Addow Shopping Centre	Shopping	Bakaaro Market, Mogadishu-Somalia
35.	Mosow Perfumes	Wholesale	Bakaaro Market, Mogadishu-Somalia
36.	Fatxi Restaurent	Food	Km4, Mogadishu-Somalia
37.	Waberi Electronics	Electronics	Bakaaro Market, Mogadishu-Somalia
38.	Bushra Cosmetics	Cosmetics	Km4, Mogadishu-Somalia

5. Dahabshiil Bank

No	Name of clients	Industry	Headquarter
1.	Laf-geel cosmetics co.	Costmetics	Wartanabada, Mogadishu-Somalia

2.	Dalabey Super Tailor	Tailor	Dharkenley, Mogadishu-Somalia
3.	Xiin Restaurent	Food	Dharkenley, Mogadishu-Somalia
4.	Wajaale construction Ltd.	Construction	Km4, Mogadishu-Somalia
5.	Hadith Education Centre	Education	Taleh, Mogdishu-Somalia
6.	SYL Marketing & Consultant Centre	Marketing	Wartanabada, Mogadishu-Somalia
7.	Nugaal Shopping centre	Shopping	Wartanabada, Mogadishu-Somalia
8.	Aflah Academy	Education	Dharkenley, Mogadishu-Somalia
9.	Jawhara Jewellery	Jewellery Shop	Bakaaro Market, Mogadishu-Somalia
10.	Ruun Cosmetics	Cosmetics	Wartanabada, Mogadishu-Somalia
11.	Al Hadid Aluminium Co	Aluminium	Bakaaro Market, Mogadishu-Somalia
12.	Aflah Barber	Barber Shop	Benadir, Mogadishu-Somalia
13.	Baxnaano Medical Wholesale	Wholesae	Bakaaro Market, Mogadishu-Somalia
14.	Jeenyo GYM	Body Building	Wartanabada, Mogadishu-Somalia
15.	Banana Export Group	Export	Bakaaro Market, Mogadishu-Somalia
16.	Tootoole Electronics	Electronics	Watanabada, Mogadishu-Somalia

6. Premier Bank

No	Name of clients	Industry	Headquarter
1.	Sahal Monitoring Fuel Consumption	Fuel Monitoring	Taleh, Mogadishu-Somalia
2.	Super Cleaning Services	Cleaning	Km4, Mogadishu-Somalia
3.	Cagaaran Waste Management	Waste Management	Km4, Mogadishu-Somalia
4.	Aaran Agri-farm	Agriculture	Bakaaro Market, Mogadishu-Somalia
5.	Tayo Stadium	Football Stadium	Km4. Mogadishu-Somalia
6.	Xirfadle Platform Freelancer	Web Designer	Bakaaro Market, Mogadishu-Somalia

7. Western Union Bank

No	Name of clients	Industry	Headquarter
1.	East Arfica Logistic CO	Logistics	Bakaaro Market, Mogadishu-Somalia
2.	Wareembo Gift Shop	Gift Shop	Taleh, Mogadishu-Somalia
3.	S-Company Group	Building	Bakaaro Market, Mogadishu-Somalia
4.	Saxafi General Trading Company	Wholesale	Bakaaro Market, Mogadishu-Somalia
5.	Kheyre Leather Co	Leather Export	Wartanabada, Mogadishu-Somalia

6.	Bravo Entertainment	Entertainment	Deynile, Mogadishu-Somalia
7.	Dur Dur Media Production	Media	Waaberi, Mogadishu-Somalia
8.	Onkod Supermarket	Supermarket	Bakaaro Market, Mogadishu-Somalia
9.	Dhaqane Fitness Center	Body Building	Km4, Mogadishu-Somalia
10.	Mega Wholesalers Ltd	Wholesaler	Bakaaro Market, Mogadishu-Somalia
11.	Shangaani Fornitures	Furniture	Bakaaro Market, Mogadishu-Somalia
12.	Al Yaasir Business Solutions	Business Solutions	Bakaaro Market, Mogadishu-Somalia
13.	Bulsho Brokers	Brokers	Bakaaro Market, Mogadishu-Somalia
14.	Daarul Xadiith Bookshop	Bookshop	Taleh, Mogadishu-Somalia
15.	Access World Travel Agency	Travel Agency	Taeh, Mogadishu-Somalia
16.	Horyaal Coffee and Sweets	Coffee Shop	Km4, Mogdoshu-Somalia
17.	Janno Restaurent	Food	Hamarweyne, Mogadishu-Somalia
18.	Maaido Beauty	Hair Dresser	Km4, Mogadishu-Somalia
19.	Green Tech Irrigation Ltd	Irrigation	Km4, Mogadishu-Somalia
20.	Dalmar Legal Consultant	Consultant	Bakaaro Market,

			Mogadishu-Somalia

8. Somali National Bank

No	Name of clients	Industry	Headquarter
1.	Kalkaal Medical centre	Medical	Taleh, Mogadishu-Somalia
2.	Global Education Centre	Education	Hamarweyne, Mogadishu-Somalia
3.	Minyaro Beaty Salon	Salon	Bakaaro Market, Mogadishu-Somalia
4.	Som HD films Production	Film production	Bakaaro Market, Mogadishu-Somalia
5.	Elman Football club	Football team	Taleh, Mogadishu-Somalia
6.	Tusmo Pharmacy	Pharmacy	Hamarweyne, Mogadishu-Somalia
7.	A2Z sport store	Sport store	Dharkenley, Mogadishu-Somalia
8.	Adman Development and Relief Agency limited	Development agency	Bakaaro Market, Mogadishu-Somalia
9.	Somali Humanitarian Action	Humanitarian	Hamarweyne, Mogadishu-Somalia
10.	Afro International Berber	Berber	Bakaaro Market, Mogadishu-Somalia
11.	Arawelo Hotel Limited	Hotel	Deynile, Mogadishu-

			Somalia
12.	Mahadaay business centre	Business	Bakaaro Market, Mogadishu-Somalia
13.	Agoon General Trading Ltd.	General Ltd	Bakaaro Market, Mogadishu-Somalia
14.	Xoosh Football Club	Football	Wartanabada, Mogadishu-Somalia
15.	Ganburi Cosmetics	Cosmetics	Wartanabada, Mogadishu-Somalia
16.	Qaran Medical Services	Medical	Hamarweyne, Mogadishu-Somalia
17.	Kamaal Entertainment	Entertainment	Wartanabada, Mogadishu-Somalia
18.	Ihsan Eye Hospital	Hospital	Hamarweyne, Mogadishu-Somalia
19.	Nour Engineering Limited	Engineering	Wartanabada, Mogadishu-Somalia
20.	Baliyo Printing Centre	Printing	Bakaaro Market, Mogadishu-Somalia
21.	Kud-kud Restaurant	Restaurant	Bakaaro Market, Mogadishu-Somalia
22.	Hamza Sky Tour and Travel	Travel	Deynile, Mogadishu-Somalia

Dear Respondent,

My name is **Yusuf Abdi Aden** and I am currently undertaking as **Master of International Finance** Program at **Istanbul Ticaret University**. As a minimum requirement for partial fulfillment of this program, I am undertaking a research study titled "**IMPACT ANALYSIS OF CONVENTIONAL AND ISLAMIC MICROFINANCE ON POVERTY ALLEVIATION IN SOMALIA".**

The primary goal of the study is to determine whether there are statistically significant differences in the effects of conventional and Islamic microfinance on reducing poverty in Somalia. My opinion is that identifying conventional and Islamic microfinance will significantly help in the supply of the best suitable solution for poverty reduction. Based on the stellar track record your firm has had in providing microfinance services, people choose your business.

I would be quite thankful if you could help me set up your clients' involvement in this study. As I indicated, the questionnaire (please see the attached postal questionnaire) will give crucial information for my research and shouldn't take more than **30 minutes** to complete. You may be guaranteed that all information about you will remain private and be deleted at the research's data processing stage. Please know that both your clients' and your company's identities will be kept in strictest confidence.

It would be beneficial if the surveys were ready by the end of May given the timing constraints.

I hope you will be able to support the advancement of my research projects. Your aid and cooperation in this research will be very appreciated and welcomed. Once more, please don't hesitate to get in touch with me if you have any questions.

Yours sincerely,

Yusuf Abdi Aden