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Research Article

Islamic Financial Products and their Contribution to the Growth of SMEs in Hargeisa, Somaliland

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Abstract
This study explores the impact of Islamic financing products, specifically Musharakah and Murabahah, on the growth of small and medium enterprises (SMEs) in Hargeisa, Somaliland. With an increasing demand for Shariah-compliant financing, the research highlights how these products contribute to the financial stability, operational efficiency, and business relationships of SMEs. A survey of 100 SMEs revealed that 90% expressed interest in Islamic financial products, yet 90% were dissatisfied with the current offerings, citing a lack of tailored products and high costs, particularly with Murabahah. The study further examined the role of Musharakah in fostering long-term growth through risk-sharing and strategic support, but also identified challenges such as complexity and limited availability. Murabahah, with its fixed cost structure, was found to be more popular, offering immediate access to capital but also creating financial strain due to high markup rates. The findings suggest a need for more diverse, flexible, and cost-effective Islamic finance options, as well as greater awareness and understanding of these products. The study concludes by recommending the expansion of Islamic finance offerings and further research into the long-term effects of these financing models on SME sustainability in emerging markets.

Keywords: Murabahah, Musharakah, Somaliland

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INTRODUCTION

Islamic finance is pivotal in promoting economic development, particularly in regions with large Muslim populations or where ethical financing is a priority. Unlike conventional finance, which often relies on interest-based lending, Islamic finance adheres to Sharia principles, emphasizing ethical investing, risk-sharing, and social justice (Yorulmaz, 2016). By prohibiting riba (interest) and promoting equity participation through contracts such as Mudarabah (profit-sharing) and Musharakah (joint venture), Islamic finance creates a more inclusive financial system that serves both individuals and businesses, including those often excluded from traditional banking (Lawhaishy & Othman, 2023; Riwajanti, 2013; Seidu & Mashood, 2020). This approach fosters entrepreneurship and SME growth by providing alternatives to interest-based loans, which are typically inaccessible to many small businesses due to a lack of collateral or high interest rates (Shahinpoor, 2009; Shaik Mohammed & Waheed, 2019). Moreover, Islamic finance supports financial inclusion by offering products that align with the religious beliefs of Muslim communities, making it an attractive alternative in developing economies where conventional banking might be less culturally acceptable (Khalequzzaman et al., 2023; Mohıeldın et al., 2012). Islamic finance's ethical guidelines also encourage investments in socially responsible sectors, contributing to sustainable development and enhancing societal welfare. In this way, Islamic finance provides a more stable and equitable path for economic growth (Ashraf et al., 2014; Legass & Durmuş, 2024).

Furthermore, Islamic finance contributes to long-term economic resilience by promoting stability in financial systems. Since Islamic financial products are based on real assets rather than speculative financial instruments, they are less vulnerable to the types of market volatility and economic crises that have plagued conventional financial systems (Alhammadi, 2024; Hamidi et al., 2019). This stability is particularly beneficial for developing economies, where access to capital is limited, and financial crises can devastate growth and poverty reduction efforts (Bhala, 2012). In regions like Somaliland, where the formal financial sector is still evolving, Islamic finance provides a mechanism to build a more resilient economy by reducing dependency on international interest-based lending and focusing on ethical investments (Mohamoud et al., 2018). Moreover, Islamic finance promotes infrastructure development and social welfare by funding projects that enhance the public good, such as healthcare, education, and infrastructure, while avoiding harmful industries (Dusuki, 2007; Umar, 2020; World Bank, 2016). Instruments like Sukuk (Islamic bonds) are increasingly used to raise capital for large-scale infrastructure projects, helping to bridge the infrastructure gap in developing regions (Kazancı, 2021; Saripudin et al., 2012). By fostering sustainable development, Islamic finance contributes not only to economic growth but also to the well-being of society as a whole, ensuring that financial progress aligns with broader social and ethical goals (Siddique, 2019; Yorulmaz, 2016; Yumna et al., 2024).

Small and Medium-sized Enterprises (SMEs) are crucial to Somaliland's economic development, serving as a major driver of job creation and poverty reduction (Zali et al., 2018). These businesses span various sectors, including agriculture, retail, construction, manufacturing, and services, contributing significantly to the local economy (Muse, 2011; World Bank, 2024). Despite their importance, SMEs in Somaliland face numerous challenges. One of the most pressing issues is limited access to finance. The formal financial sector in Somaliland is still in its infancy, and most banks primarily follow conventional finance models, which do not cater to the needs of small businesses or entrepreneurs who adhere to Islamic principles . Additionally, the absence of collateral or a formal credit history further hampers the ability of many SMEs to access loans. The lack of infrastructure, including reliable electricity, transportation, and digital connectivity, also restricts SMEs' ability to operate efficiently and reach wider markets . Furthermore, the absence of a comprehensive regulatory framework creates an environment of uncertainty and risks for entrepreneurs, preventing business expansion and formalization. Political instability, though relatively low compared to neighboring regions, remains a concern, as it limits the inflow of foreign investment and complicates international trade opportunities (Mohamoud et al., 2018; Zali et al., 2018)

Despite these challenges, there are significant opportunities for SMEs in Somaliland to grow and thrive. Islamic finance, rooted in ethical principles and risk-sharing, offers a promising alternative to traditional banking models, providing SMEs with access to funding options that align with local cultural and religious values (Mohieldin et al., 2011). Additionally, the government and international organizations can play a key role in providing support to SMEs through targeted policies, infrastructure development, and business training programs (El-Gamal, 2006). With an increasingly youthful population and growing interest in female entrepreneurship, there is potential to boost SME activity by focusing on inclusive business practices, particularly for women and youth. Furthermore, Somaliland's rich agricultural sector and natural resources provide SMEs with ample opportunities to invest in value chains, which could increase local production and access export markets. Improving infrastructure, particularly in transportation and digital connectivity, would also significantly enhance the ability of SMEs to reach national and international markets. By embracing these opportunities, Somaliland can unlock the full potential of its SME sector, drive sustainable economic growth, and improve the livelihood of its citizens.

LITERATURE REVIEW

Islamic Finance and Its Contribution to SME Growth in Somaliland

Islamic finance is a financial system that operates according to Islamic principles, which are grounded in Shariah law (Alhammadi, 2023; Ibrahim & Mirakhor, 2014). This system provides an ethical alternative to conventional finance, particularly by prohibiting interest-based transactions, speculation, and investments in industries deemed harmful or unethical, such as alcohol, gambling, and tobacco (Dirie et al., 2023; Hartanto et al., 2023). Instead, Islamic finance promotes fairness, risk-sharing, and the equitable distribution of wealth, focusing on investments that contribute positively to society (Dirie et al., 2023; Shahinpoor, 2009). The fundamental principles of Islamic finance are rooted in the avoidance of riba (interest), gharar (excessive uncertainty), and haram (forbidden) activities, which differentiate it from conventional financial models. Islamic financial products are structured in accordance with Shariah law, which prohibits interest (riba), uncertainty (gharar), and unethical investments (Riwajanti, 2013; Van den Berg, 2016). One of the most common products is Murabaha, a cost-plus financing arrangement where a financial institution buys an asset and resells it to the client at an agreed price, including a profit margin. The buyer repays in installments, and the cost is fixed without any interest involved (Kazancı, 2018; Mekennon & Uvaneswaran, 2021; Rahim Abdul Rahman, 2010). Another widely used product is Mudarabah, a profit-sharing partnership where one party provides the capital, and the other contributes expertise and management. Profits are shared according to a pre-agreed ratio, but losses are borne solely by the capital provider unless there is negligence from the entrepreneur (Adnan & Ajija, 2015; Chong & Liu, 2009; Lawhaishy & Othman, 2023). Similarly, Musharakah is a joint venture partnership where both parties contribute capital to a business or project, and profits and losses are shared according to their respective contributions (Berdiyarov & Bekmirzayev, 2021; Dinc, 2017; Soh, 2019). Ijara, or leasing, involves the financial institution purchasing an asset and leasing it to the customer for a fixed period. The customer pays regular lease installments, and at the end of the term, the asset may be purchased by the lessee or returned (Fahami et al., 2024; Mekennon & Uvaneswaran, 2021; Rahim Abdul Rahman, 2010). Istisna, another key product, is used for the financing of manufacturing or construction projects. Under this contract, the financier provides capital for the production of goods or completion of a project, with payments made in stages based on progress (Chong & Liu, 2009; Mbawuni & Nimako, 2017; Sonko, 2020).

Takaful refers to Islamic insurance, where participants contribute to a pool of funds to cover risks among the members. Unlike conventional insurance, Takaful operates on the principle of mutual cooperation and risk-sharing (Alhammadi, 2023; Haneef et al., 2015; Sulayman, 2015). Sukuk are Islamic bonds representing ownership in underlying assets, and the returns are linked to the asset's performance rather than earning interest (Address et al., 2009; Ellias et al., 2013; Raimi et al., 2024). Qard Hasan, a benevolent loan, is an interest-free loan provided for charitable purposes, where only the principal is to be repaid (Mekennon & Uvaneswaran, 2021; Muneer & Khan, 2022; Rahim Abdul Rahman, 2010; Wazir & Durmuşkaya, 2023). Lastly, Wakalah is an agency agreement where one party (the principal) appoints another party (the agent) to perform specific tasks on their behalf for a fee or commission (Kamali, 2000; Mohd Thas Thaker & Mohd Thas Thaker, 2016; Obaidullah & Khan, 2011). In recent years, Islamic finance has gained global recognition as an alternative and increasingly important financial system, particularly in Muslim-majority countries and regions. This growth is driven by the increasing demand for ethical financial products that comply with religious principles while fostering inclusive economic development (Legass & Durmuş, 2024; Saiti et al., 2019). Islamic finance has not only been embraced by individuals but also by institutions seeking to invest in ways that adhere to socially responsible and sustainable practices. The sector has expanded significantly, especially in emerging markets, where it plays a vital role in offering financial inclusion to populations that may otherwise be excluded from the traditional banking system (Fersi & Boujelbène, 2023).

In the case of Somaliland, a self-declared independent region in the Horn of Africa, Islamic finance presents a promising avenue for the growth of small and medium-sized enterprises (SMEs). SMEs are critical drivers of economic growth and development, particularly in developing economies like Somaliland, where they are responsible for a significant portion of employment and economic activity (Mohamoud et al., 2018). SMEs in Somaliland are active across sectors such as agriculture, trade, manufacturing, and services, and they serve as a crucial source of job creation, poverty alleviation, and community development. However, despite their importance, SMEs in Somaliland face a multitude of challenges, many of which are financial in nature (Zali et al., 2018). Access to financing remains one of the biggest obstacles for SMEs in Somaliland. Many entrepreneurs in the region struggle to obtain the necessary capital to start, sustain, or expand their businesses. Traditional financial institutions in the region tend to impose stringent lending conditions, such as high interest rates, collateral requirements, and limited access to credit for small-scale businesses. These conditions often deter SMEs from seeking loans from conventional banks and, instead, many businesses resort to informal financial mechanisms or personal savings. While these informal sources of capital can provide some support, they are often unreliable and insufficient for long-term growth. Islamic finance offers an alternative approach that addresses some of the barriers SMEs face in accessing capital. Unlike conventional financial systems, which rely on interest-bearing loans, Islamic finance structures emphasize risk-sharing, partnerships, and profit-and-loss-sharing mechanisms (Mohamoud et al., 2018). Musharakah involves a joint venture between the entrepreneur and financier, where both parties contribute capital and share the profits and risks of the venture. Islamic financial products like Murabaha and Ijarah also offer practical solutions for SMEs looking to acquire assets or equipment (Berdiyarov & Bekmirzayev, 2021). Murabaha, a cost-plus financing agreement, allows businesses to purchase goods or equipment with transparent terms, where the seller discloses the cost price and the agreed profit margin. Ijarah, a leasing contract, allows businesses to use assets like machinery or property without owning them, providing an affordable way to access necessary resources without the upfront capital expenditure (Al Dabbas, 2023). The integration of Islamic finance into Somaliland's economy could have a significant impact on the growth and development of SMEs. By offering financial products that align with local cultural and religious values, Islamic finance can bridge the gap in access to capital, particularly for entrepreneurs who may be hesitant to engage with conventional interest-based financial systems. Moreover, the ethical nature of Islamic finance, which discourages harmful speculative practices and promotes transparency and accountability, can help foster sustainable business practices and a more stable financial environment for SMEs.

However, despite its potential, adopting Islamic finance in Somaliland is not without challenges. The country's financial infrastructure remains underdeveloped, and the regulatory framework for Islamic finance is still in its infancy. Although there has been some progress in the establishment of Islamic banking institutions and microfinance organizations, the sector remains limited in scope and outreach. Many SMEs in Somaliland still operate in the informal economy and may not be aware of the benefits and availability of Islamic finance products. There is a need for greater awareness, education, and training to help both financial institutions and entrepreneurs understand how Islamic finance can support business growth.

Challenges and Opportunities of Islamic Finance for SMEs

Islamic finance presents significant challenges for SMEs in Somaliland, primarily due to limited awareness and understanding of Sharia-compliant products (Efendic & Karamustafic, 2017; Sheikh, 2021). Many small business owners are unfamiliar with Islamic financial concepts such as Mudarabah, Musharakah, and Murabaha, which may hinder their willingness to adopt these alternatives. Additionally, the lack of dedicated Islamic financial institutions and a comprehensive regulatory framework in Somaliland creates obstacles for financing businesses (Hussein Kakembo et al., 2021; Mohamoud et al., 2018). Without adequate legal support or institutions offering these products, SMEs may face difficulties accessing the capital they need for growth. Despite these challenges, Islamic finance offers promising opportunities for SMEs in Somaliland, particularly in enhancing financial inclusion. Many SMEs, especially those in rural areas or the informal economy, are often excluded from conventional banking systems due to high collateral requirements and interest-based lending. Islamic finance, with its interest-free and ethical financial products, can provide these businesses with access to funding without the traditional barriers, fostering a more inclusive financial environment. Products like Mudarabah and Musharakah enable businesses to secure capital based on profit-sharing and joint venture principles, which are more accessible for businesses without substantial collateral (Al Dabbas, 2023).

The potential for growth in Islamic finance for SMEs in Somaliland also lies in promoting ethical business practices and contributing to long-term economic development. Islamic finance encourages transparency, fairness, and social responsibility, aligning with the cultural and religious values of the local community. This ethical framework can lead to greater community trust, fostering sustainable business models that are focused on social welfare and economic stability. Additionally, the use of Islamic financial products can help diversify Somaliland's economy, attract investments, and generate job opportunities, thus contributing to national economic growth.

Impact of Islamic Finance on SME Development

Islamic finance plays a crucial role in fostering the development of Small and Medium-sized Enterprises (SMEs), particularly in regions like Somaliland, where access to conventional financing is often limited. One of the most significant impacts of Islamic finance on SMEs is improved access to capital. Traditional banks often require collateral and impose high interest rates, which can be a barrier for small businesses. In contrast, Islamic finance products, such as Mudarabah (profit-sharing) and Musharakah (joint venture), provide funding through equity participation rather than interest-based loans (Abdul-Majeed Alaro & Alalubosa, 2019; Noor;, Azman Mat, 2022). These models allow SMEs to access the necessary funds without the burden of paying interest, making it easier for businesses with limited assets or credit histories to secure financing. In addition to providing access to capital, Islamic finance promotes business sustainability through its core principles of risk-sharing and ethical finance (Adelekan, 2021; Al Dabbas, 2023). Unlike conventional debt financing, which places the full financial burden on the borrower, Islamic finance products ensure that both the investor and the entrepreneur share the risks and rewards of the business. This collaborative approach leads to more responsible financial management and encourages long-term stability. Since both parties have a vested interest in the business's success, it reduces the pressure of debt repayment and promotes decision-making that benefits the business and community alike. As a result, SMEs can focus on sustainable growth without the strain of fixed debt obligations (Hussein Kakembo et al., 2021).

Islamic finance also encourages ethical business practices, particularly in regions like Somaliland, where community values and religious principles are central to business operations (Mohamoud et al., 2018). The emphasis on fairness, transparency, and social responsibility within Islamic finance aligns with the values of local entrepreneurs. It ensures that businesses avoid investments in harmful industries, such as alcohol, gambling, and unethical practices. By adhering to these ethical guidelines, SMEs can build trust and goodwill within their communities, leading to greater customer loyalty and a stronger brand reputation. This ethical approach not only contributes to the individual growth of SMEs but also fosters broader economic stability, social welfare, and sustainable development (Hassan, 2022). Ultimately, the combination of access to capital, risk-sharing, and ethical business practices enables Islamic finance to play a pivotal role in the growth of SMEs, contributing to the economic development of Somaliland and creating a more inclusive, responsible business environment.

Empirical studies

Al Dabbas, (2023) examines the role of Islamic finance in the development of small and medium enterprises (SMEs) in Jordan, benefiting both Islamic financial institutions and SME owners. A descriptive analytical approach was used, analyzing 100 questionnaires completed by SME owners. The findings show that SMEs in Jordan moderately depend on

Islamic finance, with Murabaha financing being the most popular method. The study suggests that policymakers should focus on the trends of SMEs to promote and expand Islamic finance, recommending increased funding from Islamic banks to support SME growth.

Adelekan, (2021) assesses the impact of Islamic financing on the competitiveness of SMEs in Southern Nigeria, surveying 400 SME owners/managers. Using ordinary least square regression, the results show that Islamic finance significantly enhances SMEs' competitiveness, particularly in terms of product pricing, customer experience, and product quality. Islamic finance, with its no-interest rate structure, can reduce operational costs and enable SMEs to offer more innovative and customer-focused products at competitive prices. The study suggests that SMEs should leverage Islamic finance to adopt sustainable business practices.

Beik & Purnamasari, (2011) investigate the role of Islamic cooperatives in Indonesia, focusing on Kospin Jasa Syariah in Pekalongan, Central Java, the largest Islamic cooperative in the country. The study analyzes the effectiveness of financing provided to micro and small enterprises (MSEs) and the factors influencing the amount of financing. A survey of 100 MSE entrepreneurs was conducted in February 2011 using Likert scale and path analysis. The findings show that the financing procedures and their impact on entrepreneurs were effective. Administrative costs and education levels were significant factors influencing the financing amount, while business income, profits, and household consumption were key determinants of post-financing income levels. The study concludes that Kospin Jasa Syariah has effectively increased the income levels of MSEs.

Hartanto et al., (2023) analyzes the impact of Islamic finance practices on micro, small, and medium enterprises (MSMEs) in Indonesia from an Islamic economics perspective, using a systematic literature review method based on PRISMA guidelines. The findings indicate that Islamic finance positively influences MSME growth, highlighting the potential of Islamic finance in improving the well-being of these businesses. Key growth factors include Islamic business ethics, innovation, and ethical considerations. The study concludes that adopting Islamic finance practices can enhance business performance and foster MSME development in Indonesia. Future research could include empirical studies for a deeper understanding of these practices in MSMEs.

Mohieldin et al., (2011) States Islamic finance promotes social justice and financial inclusion through risk-sharing contracts and wealth redistribution. Risk-sharing tools like Shariah-compliant microfinance and SME financing, along with redistributive instruments such as Zakah, Sadaqat, Waqf, and Qard-al-Hassan, aim to alleviate poverty and enhance access to finance. These instruments have deep historical roots and can reduce inequality in Muslim countries. The paper identifies gaps in OIC countries regarding microfinance and redistributive systems and concludes that Islamic finance can significantly improve financial inclusion if properly implemented, with policymakers focusing on strengthening regulatory frameworks.

SMEF, (2024) conducted across 33 AFI network countries, shows that Islamic finance is increasingly integrated into national financial inclusion strategies. It highlights the role of Islamic finance in promoting financial inclusion through risk-sharing contracts and wealth redistribution, fostering economic justice and social participation. Most respondents recognize its medium-to-high importance in advancing inclusion. Available Islamic finance products include equity-based tools like Mudarabah and Musharakah, fee-based products such as Wadiah, Ijara, and Murabaha, along with Sukuk, Takaful, and social instruments like Waqf, Zakat, and Sadaqah, contributing to inclusivity and social welfare.

Hussein Kakembo et al., (2021) investigates how adopting Islamic microfinance can enhance the sustainability of microfinance institutions (MFIs) while addressing the financing challenges faced by SMEs in Uganda. A review of existing literature and empirical studies on SMEs' performance and challenges was conducted to explore how Islamic microfinance could bridge the financing gap. The study finds that existing MFIs have struggled to meet their objectives, leaving many SMEs in Uganda's informal sector financially vulnerable and leading to high failure rates. However, the introduction of the Financial Institutions Amendment Act 2016 and the Tier 4 Microfinance Institutions and Money Lenders' Act, 2016, which incorporate Islamic finance, is seen as a key step toward addressing these challenges if fully adopted.

RESEARCH METHOD

This study adopts a descriptive research design to explore the impact of Islamic finance, specifically Murabaha and Musharakah financing, on the growth of small and medium enterprises (SMEs) in Hargeisa, Somaliland. The study aims to understand how these Islamic finance products influence SME growth and financial sustainability, focusing on SMEs that utilize Murabaha and Musharakah as their primary sources of financing. which allows the researcher to describe and analyze the existing conditions and relationships between Islamic financial products and SME growth. According to Saunders et al. (2009), descriptive research is suited for identifying patterns and understanding relationships between variables, making it ideal for exploring the role of specific Islamic finance products in SME performance. The study targets small and medium enterprise owners in Hargeisa, Somaliland, with a total population of 100 SME owners utilizing Islamic financing products like Murabaha and Musharakah. To sample this specific group effectively, a judgmental sampling approach, also known as purposive sampling, will be utilized. This non-probability technique allows for the selection of respondents who meet predefined criteria crucial to the research, including using Murabaha or Musharakah as primary financing methods and being an owner or manager of an SME in Hargeisa. By employing judgmental sampling, the study ensures that the sample aligns closely with the study's focus on Islamic finance in SMEs, comprising 100 respondents representing the entire population of SMEs utilizing Islamic financing in Hargeisa. Additionally, interviews were conducted with 10 selected larger SMEs management bodies. The primary data collection instrument for this study will be a structured questionnaire. The questionnaire will be designed to gather both quantitative and qualitative data on the impact of Murabaha and Musharakah financing on SME growth. The data will be collected through face-to-face distribution of the questionnaires or sent via email, depending on the respondents' availability and preferences. data is collected, it will be entered into the Statistical Package for Social Sciences (SPSS) for analysis.

Data Analysis

Question	Responses	Respondent	Percent
Do you want to use Islamic financial products?	Yes	90	90
	No	10	10

The survey results reveal that 90% of SMEs in Hargeisa are interested in adopting Islamic banking products such as Musharakah, Murabaha, and Mudarabah, highlighting a strong demand for Shariah-compliant financing options. The primary reasons for this high interest are the ethical alignment of Islamic finance with Islamic values, such as the prohibition of interest (riba), and its emphasis on risk-sharing and profit-sharing rather than debt-based financing. This appeals to entrepreneurs seeking fair and transparent business practices. Additionally, Islamic finance offers financial inclusivity, providing access to capital through alternative models like Musharakah, which are more accessible than traditional loans. Furthermore, the sustainability focus of Islamic finance, which encourages long-term partnerships and shared responsibility, aligns with the needs of SMEs for stable growth. However, the 10% of respondents who are not interested in Islamic finance may be hindered by lack of awareness, perceived complexity of Islamic financial products, or a preference for conventional loans.

Table 2.

Question	Responses	Respondent	Percent
Are you happy with the Islamic financial products currently delivered by financial institutions?	Yes	0	0

The survey results show that 9**0% of respondents** are dissatisfied with the Islamic financial products currently offered by financial institutions, with no one expressing satisfaction. This unanimous dissatisfaction suggests several potential issues, including a lack of tailored products for the specific needs of SMEs and individuals, limited awareness or understanding of available offerings, or challenges related to product complexity and accessibility. Additionally, there may be service quality issues or market gaps in the existing financial products, particularly for SMEs. Many respondents also expressed a preference for **conventional banking** over Islamic finance, citing that the **cost of Murabahah financing** is too high. This cost-related concern suggests that the profit margins and markup rates in Murabahah arrangements may be burdensome for businesses and individuals, making conventional banking a more attractive option despite its interest-based nature. Furthermore, there is a **shortage of diverse Islamic financial products**, which limits options for customers who might need alternative forms of financing such as Mudarabah, Musharakah, or Ijarah. This lack of variety means that many businesses, especially SMEs, cannot find financing solutions that meet their specific needs, leading them to turn to conventional banking.

Question	Responses	Respondent	Percent
Which product you used the most?	Musharakah	20	22.2%
	Murabahah	70	77.8%
Mean	Other	0	0

The survey results clearly show that **Murabahah** is the dominant Islamic financial product used by SMEs in Hargeisa, with **77.8%** of respondents preferring this type of financing, while 22.2**%** choose **Musharakah**. This trend directly reflects the limited range of financing products offered by financial institutions in the region, as the majority of financial institutions in Hargeisa primarily provide **Murabahah** and **Musharakah**, with a significant emphasis on the former. The high adoption rate of **Murabahah** (77.8%) can be attributed to its **simplicity** and **predictability**, making it an attractive option for SMEs. In a **Murabahah** agreement, the financial institution buys goods or assets for the SME and resells them at a marked-up price, which is paid by the SME in installments. This financing model is straightforward and ideal for businesses that need immediate access to goods or capital for trade or procurement. Moreover, the **fixed cost** and **clear terms** offer a sense of security and transparency to both the financier and the entrepreneur, thus increasing its popularity among SMEs in Hargeisa. On the other hand, **Musharakah** financing, which accounts for 22.2**%** of the responses, involves a partnership where both the SME and the financial institution share the risks and rewards of the business. While it offers a more **equitable** and **collaborative** structure, **Musharakah** may be less attractive to SMEs due to its **complexity** and the need for a **long-term partnership**. Many businesses may prefer the **immediacy** and **certainty** offered by **Murabahah**, especially for day-to-day operational needs. The absence of other Islamic financial products, such as **Mudarabah**, **Ijara**, or **Sukuk**, in the survey responses suggests a **limited variety** of offerings in the region. This lack of diversity may be a result of institutional constraints or a general **lack of awareness** of other Islamic financing models. Expanding the availability of diverse Islamic finance products could potentially benefit SMEs by offering more tailored financing options to suit different business needs. The trend emphasizes a need for **financial institutions** in Hargeisa to **diversify their offerings** and for **SMEs** to explore the full potential of Islamic finance, ensuring a more sustainable and inclusive business environment.

RESULTS AND DISCUSSION

Musharakah financing, a partnership-based Islamic finance model, involves both the financier and the entrepreneur sharing the risks and rewards of a business venture. Unlike debt-based financing, which imposes fixed interest payments, Musharakah allows for a more **equitable** distribution of profits and losses based on the agreed-upon contribution of each partner. This financing structure has significant implications for the **growth of small and medium-sized enterprises (SMEs),** especially in regions where access to traditional financing may be limited.

Why do you think Musharakah is good for the growth of SMEs.

- Promotes Risk Sharing and Business Stability

  One of the most important ways **Musharakah** contributes to the growth of SMEs is through its **risk-sharing** nature. In conventional debt financing, SMEs are required to repay loans with interest, regardless of their business performance. This can place significant financial stress on smaller businesses, particularly those with unstable cash flows or who are in the early stages of development. By contrast, in a Musharakah contract, both the financier and the entrepreneur share the **risks and rewards**. If the business succeeds, both parties share in the profits. However, if the business incurs losses, the financier absorbs a portion of the losses in accordance with their investment share. This reduces the financial burden on the entrepreneur and encourages them to take on more reasonable risks, knowing that they are not solely responsible for potential losses. The risk-sharing mechanism can lead to more **sustainable** business growth, as entrepreneurs can focus on business development without the constant pressure of fixed repayments. Moreover, the **flexibility** inherent in Musharakah agreements provides a more **adaptable financing structure** that allows SMEs to navigate market challenges. This flexibility is particularly important for businesses that are vulnerable to fluctuations in demand, seasonality, or unforeseen external challenges. Since profit-sharing is based on performance rather than fixed amounts, the financing model aligns the interests of both parties and creates an environment in which financial pressures are mitigated.

- It encourage Long-Term Investment and Strategic Support
  Musharakah financing can also promote **long-term investment** in SMEs, which is essential for sustainable growth. Unlike traditional debt financing, which typically focuses on short-term repayment schedules, Musharakah fosters a deeper level of commitment and engagement from both parties. Since the financier is involved in the business's growth, they have a vested interest in its success. This may lead to **strategic support**, where the financier contributes beyond just financial capital. They may provide guidance on business operations, industry expertise, or assist in expanding the business network. This **partnership-oriented model** has the potential to open doors for SMEs to scale their operations in ways that traditional finance models may not. The **collaborative relationship** between the financier and the entrepreneur encourages transparency and strategic decision-making. Moreover, the financier's involvement can act as a form of **mentorship**, which is critical for SMEs that may lack experience or resources. This level of engagement can help **increase the chance of success** for SMEs, as they receive not only funding but also the necessary tools to navigate complex business environments.
- It addresses Challenges to Widespread Adoption
  "Despite the clear benefits, **Musharakah** financing faces several challenges that limit its adoption among SMEs. One key challenge is the **complexity** of Musharakah agreements, which require careful structuring and the mutual trust between the financier and entrepreneur. In many cases, SMEs may be unfamiliar with the intricacies of Islamic financing products, making them hesitant to adopt Musharakah. Furthermore, some SMEs may prefer the **simplicity and predictability** of financing models like **Murabahah**, which involves a fixed cost and is easier to implement. The **lack of awareness** and understanding of Musharakah financing is another barrier to its widespread adoption. Many SMEs may not be familiar with the benefits of profit-sharing or how Musharakah can be a **viable alternative** to traditional loans. Additionally, financial institutions may not have the expertise or infrastructure to offer Musharakah as a primary financing model, which limits the product's availability. As a result, many businesses may default to conventional loans or less favorable financing structures, missing out on the opportunity for more **equitable growth"**.

Can you describe any challenges you have faced while using Musharakah financing in your business operations, and how have these challenges affected your growth trajectory?"

Using Musharakah financing has certainly provided opportunities for growth, but there have been some significant challenges along the way. One of the main issues we have faced is the difficulty in finding reliable and suitable partners. Many potential investors are unfamiliar with Musharakah, which makes it hard to establish partnerships. Those who are familiar with the concept tend to have high expectations, which can lead to disagreements on profit-sharing or business strategy. These disagreements often slow down decision-making processes and can strain the relationship between the business and the investor. Another challenge is the **lack of flexibility** in the financing terms. Since Musharakah involves sharing profits and losses, the risks for both parties are high. If our business doesn't meet expectations or faces unexpected challenges, it creates tension with investors, as they expect to share the losses. This financial pressure can limit our ability to reinvest or expand at a quicker pace. Additionally, there is a general **lack of awareness and experience** in the local market. Many small businesses are still unfamiliar with Islamic finance principles like Musharakah, so it's difficult to find adequate guidance or support. As a result, we often have to rely on external consultants, which adds to costs. These challenges have affected our growth trajectory by slowing down expansion plans and reducing profitability in the short term. Although Musharakah has provided much-needed capital, these barriers have limited our ability to fully capitalize on the growth opportunities available. However, we still believe in its potential, and we are hopeful that with more education and experience, we can overcome these obstacles in the future.

What role has Musharakah financing played in improving your relationship with suppliers, customers, or other stakeholders, and how has that affected your overall business growth?

Musharakah financing has had a significant and positive impact on our relationships with suppliers, customers, and other stakeholders, contributing to the overall growth of our business. With suppliers, the shared risk and profit model inherent in Musharakah has helped establish a foundation of trust, leading to more favorable payment terms and better pricing arrangements. As suppliers understand that we are financially supported by an investor who shares in both the profits and losses, they are more inclined to offer us high-quality materials at competitive prices and are often willing to extend credit or offer flexible terms. For customers, knowing that our business operates on an ethical financing model based on Islamic principles has helped build confidence in our stability and reliability. This trust has not only solidified our existing customer relationships but has also attracted new clients who value businesses that align with their own ethical values. Moreover, Musharakah financing has improved our reputation with other stakeholders, such as investors and business partners, as they see the shared-risk model as a commitment to long-term success. This has fostered stronger partnerships and opened doors to new business opportunities and strategic collaborations. Ultimately, the positive impact of Musharakah financing on these relationships has been a crucial factor in our business's growth, despite some challenges we face with the model. It has provided us with the credibility, stability, and support needed to expand and navigate the competitive market.

The Relationship Between Murabahah & Growth of SMEs

Murabahah financing has had a noticeable impact on the growth of my SME, especially in terms of **financial stability** and **operational efficiency**. Since Murabahah is a **cost-plus financing** model, it has allowed me to secure the necessary capital to purchase assets and inventory without the burden of traditional interest-based loans. The fact that the cost of financing is predetermined and fixed makes it much easier to plan for expenses and set **clear repayment schedules**, which reduces financial uncertainty and improves cash flow management. Murabahah financing, being a widely-used Islamic finance product, offers SMEs in Somaliland access to capital that they might otherwise be unable to secure through conventional banking systems. This is particularly relevant in Somaliland, where traditional banking services may be less accessible, and interest-based financing is generally not favored due to religious and cultural reasons. For SME owners who prefer to adhere to Islamic principles, Murabahah provides a solution that allows them to access necessary funding without violating Islamic law, as it is free from interest. This helps businesses expand operations, purchase inventory, and invest in assets essential for growth, potentially boosting productivity and long-term business viability.

How has Murabahah financing impacted the financial stability and growth of your business?

Murabahah financing has significantly enhanced the **financial stability** and **growth** of a business by providing a clear and predictable cost structure. With Murabahah, the total cost and profit margin are agreed upon in advance, eliminating the uncertainty and risk typically associated with fluctuating interest rates in traditional financing. This predictability has been essential for budgeting and cash flow management, allowing me to plan for operational expenses and avoid liquidity problems. Additionally, Murabahah financing enabled me to purchase critical assets and inventory without the financial strain of high-interest loans, which directly impacted my ability to meet increasing customer demand and expand product offerings. This flexibility has been crucial for business growth, as it allowed me to reinvest profits into other areas like marketing and customer acquisition. Furthermore, by improving my purchasing power and securing better terms with suppliers, Murabahah financing has fostered stronger relationships with them, which in turn has helped me secure larger orders and better credit terms. While Murabahah has been effective in supporting short-term business needs and growth, its structure doesn't offer the same level of **risk-sharing** as other financing models like **Musharakah**, which could be beneficial for long-term sustainability. In conclusion, Murabahah financing has played an instrumental role in stabilizing my business finances and enabling growth, though exploring additional financing options may be necessary for addressing larger-scale challenges and ensuring long-term success.

what challenges driven from Murabahah contract hinder the growth of SMEs?

In **Somaliland**, the challenges and limitations of **Murabahah financing** for SMEs are significant and multifaceted. The **high costs** associated with Murabahah financing can be a major barrier for SMEs, as the markup on goods purchased through this financing model is often much higher compared to conventional financing options, which may be more accessible in other regions. For SMEs operating with narrow profit margins, these elevated costs limit their ability to reinvest profits into business expansion, slowing growth and reducing overall profitability. Additionally, in the competitive business environment of Somaliland, these high financing costs can make it difficult for SMEs to offer competitive prices, further hindering their growth prospects. Another limitation of Murabahah is its **limited flexibility**. Since Murabahah is typically tied to the acquisition of specific assets like inventory or equipment, it restricts SMEs from using the funds for other crucial operational needs such as marketing, labor, or general business expenses. This lack of flexibility makes it harder for businesses to adapt quickly to market changes or to invest in long-term growth strategies, ultimately constraining their ability to diversify or capitalize on new opportunities. Furthermore, the **short-term nature** of Murabahah financing presents sustainability challenges for SMEs in Somaliland. With fixed repayment periods, Murabahah is often more suitable for businesses with immediate needs rather than those looking for long-term financial planning. Frequent reliance on this short-term financing can prevent SMEs from building a stable financial foundation for long-term growth, limiting their ability to scale operations or secure investments for future development. Lastly, the **lack of diverse Islamic financial products** in Somaliland is another limitation. While Murabahah is a commonly used product, other Islamic financing models like **Mudarabah** (profit-sharing), Istisna and Ijara are not available. These alternatives could provide more flexible, long-term solutions for SMEs, but their absence restricts access to financing structures that better suit the evolving needs of businesses. Overall, while Murabahah provides access to capital, its high costs, limited flexibility, short-term focus, and lack of variety in Islamic financial products hinder the growth and sustainability of SMEs in Somaliland.

CONCLUSION

The analysis of the survey data conducted among SMEs in Hargeisa reveals key insights into the adoption, satisfaction, and impact of Islamic financial products, particularly Musharakah and Murabahah. A significant 90% of respondents expressed interest in utilizing Islamic financial products, driven by ethical considerations such as the prohibition of interest and the emphasis on risk-sharing and profit-sharing. However, despite the high interest, 90% of respondents were dissatisfied with the existing Islamic finance products, primarily due to a lack of product diversity, limited awareness, and high costs associated with Murabahah financing. Murabahah was found to be the most commonly used product, with 77.8% of SMEs preferring it over Musharakah. The simplicity and predictability of Murabahah make it an attractive option for SMEs in need of immediate capital for trade or procurement. However, the high profit margins and lack of flexibility in Murabahah arrangements have led to concerns about its long-term sustainability and financial burden for SMEs. On the other hand, Musharakah financing, with its risk-sharing nature, offers SMEs a more equitable financing model that can promote business stability and long-term growth. However, the complexity of Musharakah agreements and the challenge of finding reliable partners have limited its widespread adoption among SMEs in Hargeisa.

In conclusion, Islamic finance plays a crucial role in the growth of SMEs in Hargeisa, with both Musharakah and Murabahah offering valuable solutions. However, the dissatisfaction with current products and the dominance of Murabahah over Musharakah highlight the need for financial institutions to diversify their offerings and make Islamic finance more accessible and adaptable to the specific needs of SMEs. To enhance the growth potential of SMEs, financial institutions should focus on improving product variety, reducing costs, and increasing awareness of Islamic finance principles. Musharakah, with its collaborative and risk-sharing model, offers long-term benefits for SMEs but requires a more supportive infrastructure and education to overcome its complexities and drive broader adoption. Expanding the availability of Islamic financial products and enhancing understanding of these models can foster a more sustainable and inclusive business environment, ensuring that SMEs have the necessary financial tools to grow and succeed.

AUTHOR CONTRIBUTIONS

Look this example below:
Author 1: Conceptualization; Project administration; Validation; Writing - review and editing.
Author 2: Conceptualization; Data curation; In-vestigation.

CONFLICTS OF INTEREST

The authors declare no conflict of interest

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