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Small and Medium Enterprises (SMEs) Challenges in Accessing business loans from Islamic banks: A Comparative Case Study of SMEs in State House Slums, Hargeisa Somaliland

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Abstract: **This study examines financial challenges of SMEs: evidence from State house Slums, Hargeisa, and Maroodi jeex region. Specifically the study provides empirical evidence on: socioeconomic characteristics of the respondents; sources and difficult of SMEs accessing financing; factors militating against SMEs performance. The researcher distributed 324 questionnaires to the respondents that make up the sample size.**

Somaliland's biggest income and employment generator is SMEs sector. Most of them deal in clothes, food, agricultural products, consumables, gold, beverages, fruits, transport and small scale manufacturing and processing. One of the biggest problems affecting the development of SMEs in Somaliland's is inadequate access to finance.

The two- Islamic banks banking system in Somaliland has been reducing exposure to SMEs over the past few years, primarily due to macroeconomic factors and the SMEs' poor business conditions, which make lending to them a risky proposition.

Access to finance is a major issue for SMEs in Somaliland; Most of SMEs are underserved if not un-served. Religious belief is a key reason hindering SMEs from opting for conventional banking financing. This type of sentiment has been growing stronger, especially over the past years. Although these SMEs are creditworthy, they are excluded from accessing funding from banks as Shariah-compliant products are either not available or not properly understood by these SMEs or involve lengthy processes, making the execution of Islamic transactions cumbersome. Somaliland's SME sector has a positive attitude toward Islamic than Conventional banking as people are becoming more sensitized to its benefits. However, numerous factors deter SMEs from approaching formal institutions for finance. A hybrid economic system is likely to appropriately work for SMEs in developing countries.

Keywords: **Islamic and conventional banking systems, Small and Medium Enterprises (SMEs), Challenges, State House Slums, Accessing business loans, Hargeisa and Somaliland.**

1. INTRODUCTION

Small and medium enterprises (SMEs) play a vital role in economic growth and have become a major concern for government and policy makers in developed, as well as in developing, countries (Storey, 1994; Chen, 2006; Hassan, 2008; Inyang, 2013; Ali, 2013; Bazza, Maiwada & Daneji 2014; Armeanu, Istudor & Laches, 2015). Access to finance and financial services by SMEs leads to economic growth and the lack of it is one of the main challenges faced by Africa.An IMF Working Paper notes that in Sub-Saharan Africa, only one in four adults has a formal bank account.

Islamic banking refers to a system of banking or banking activity that is consistent with Islamic law Shariah principles and guided by Islamic economics. Islamic finance transactions do not include interest but instead, use risk sharing to justify earning of profit. Christine Lagarde, Managing Director of the International Monetary Fund, said that: "Islamic finance's underpinning principles of promoting participation, equity, property rights and ethics are all universal values."

The foundational philosophy of Islamic finance relies heavily on the economic and social development factor, including financial inclusion in the form of servicing the unbankable of the society, such as some of the SMEs and MSMEs. Financial inclusion can be addressed in Islamic finance by promoting asset-based and equity-based contracts as a viable alternative to conventional financing.

Africa is a home to more than 250 million Muslims and Islamic finance is present in more than 21 African countries. Kenya, Morocco, Niger, Nigeria, Senegal, South Africa, Sudan and Uganda have recently established legal frameworks for Islamic finance. More recently, capital markets transactions have been on the rise

Therefore through a portfolio of asset-based and equity-based financing solutions for SMEs and MSMEs in Islamic finance, a clear financing gap for this sector can be tackled. This is because through asset-based financing, it fulfills essential requirement of Islamic financial transaction by ensuring that the financial transaction is part of a real economic activity with a close financial linkage to the financial assets.

SMEs promotion is the Islamic participatory schemes, such as mudarabah and musharakah, integrate assets of lender and borrowers; therefore, allowing Islamic banks to lend SMEs on a longer-term basis to projects with higher risk-return profiles and, thus, to support economic growth. That's the influence of Islamic bank's financing toward the business performance.

On the basis of Accounting Profitability Theory, according to Hicks (1946), the accountants‟ profitability indicates "the amount which a firm can spend or consume without impoverishing themselves." and this reflects sustainability. Using this approach, SMEs are considered sustainable if and only if they are able to cover all their operating and financing costs from their own generated revenue, mainly through profits from operations. Supported by Agency theory, the agency relationship is one of the oldest and commonest arranged styles of social interaction.

According to Article (2008), Islamic finance and banking is premised on the foundation of Prohibition of interest, low consumer lending, profit and loss sharing and high real sector investing are primary characteristics of Islamic banks. Islamic banks operate the three conventional deposit accounts. They also engage in investment financing, trade financing, lending, and other financial services. Differences between Islamic and conventional banks lie in prohibition of interest, emphasis on Islamic principles of morality, emphasis on collateral, certainty of deposits and returns, liquidity risk and solvency risk; while similarities between Islamic and conventional banks lie in profit-making objective and nature of banking services.

Conventional Finance and Banking Theories bring comparative insights. The currently prevalent *financial intermediation theory of banking* says that banks collect deposits and then lend these out, just like other non-bank financial intermediaries. The older *fractional reserve theory of banking* says that each individual bank is a financial intermediary without the power to create money, but the banking system collectively is able to create money through the process of 'multiple deposit expansion' (the 'money multiplier').

State house Slum SMEs in Hargeisa face challenges in having access to credit facilities from financial institutions (banks, micro-finance firms, savings and loans companies among others), which are the s sector's financiers. In the microfinance and SMEs literature, several challenges are identified as militating against access to credit facilities among SMEs. Some of these challenges are: SMEs lacking collateral security; poor records keeping; poor credit rating as a result of poor savings history , and stringent lending criteria used by financiers (Ackah and Vuvor, 2011; Cofie, 2012).

One of the major constraints in growth of such enterprises is access to sustainable capital with which they need to be able to have a peak performance. SMEs in State House Slum in Hargeisa continue to experience challenges when it comes to accessing finance they need to be able to operate adequately. Given the red tape bureaucratic bottlenecks they have to go through to acquire finance from whichever source most of them have become apathetic to finance by Dahaabshil, Dara slama, and Premier banks present in Hargeisa.It's not entirely finance that can catapult SMEs performance, but there are a myriad of other hurdles they have to go through for them to operate.

Consumer loans are therefore unattractive since there is no profit to be derived in the form of interests on the loans because there is no interest charged on the loans. It is on this basis that Islamic banks seldomnly lend to SMEs. This therefore, compound the challenges SMEs find themselves in.Alternative sources for SMEs to secure funds are as slippery as from Islamic banks. There is an argument that Islamic banks set aside loanable funds for consumer loans, provided repayment guaranteed by the government. This remains a pipe dream.

2. METHODOLOGY

The research falls under a descriptive survey (Koul, 1984). Descriptive survey studies are designed to obtain pertinent and precise information concerning the current status of phenomenon and whenever possible, to draw valid general conclusions from the facts discovered. The descriptive design was applied due to its relative less scientific sophistication. The researcher piloted the instruments to a surrogate sample to ascertain the reliability and validity of the instruments. The instruments were administered by the researcher himself. There was briefing to the respondents from these organizations. English language was used to get the appropriate information from the respondents. (Tubei, 2018)

2.1 Data Collection Methods

2.1.1 Sample Selection

Researcher sampled 234 respondents.The people involved in small and medium businesses in Statehouse slum were 565.Out of this; 325 are involved in small business while 240 are engaged in medium businesses.

Slovene's formula was employed in getting the sample size.

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

Where;

n = Sample Size

N = Population Size

e = Level of significance = **e = 0.05 = e2 = (0.05)^2 =<u>0.0025</u>**

n=565/1+565(e^2)

=234

In administration of questionnaires a stratified random sampling was employed because of the heterogeneous nature of the population in terms of level of business they are involved in.

2.1.2 Interview schedule

Data collection was based on 15 interview questions that were open-ended.Open-ended questions are unstructured questions in which the respondent answers by using his or her own words (Seidman, 1998). The interviews took place at mutually agreed time, date, and location chosen by the participants. Several authors suggest that ninety minutes is the optimum length for a qualitative research interview (Hermanowiez and Seidman, 1998). Therefore, the researcher suggested to the interviewees that the interviews would be approximately one hour but they could go as long as they wish so that the researcher does not limit them with what they wanted to share.

The researcher employed usage of this tool because of accurate screening. Face-to-face interviews help with more accurate screening. The individual being interviewed is unable to provide false information during screening questions such as gender, age, or race (Tubei, 2018). It captured verbal and non-verbal ques. A face-to-face interview did no doubt capture verbal and non-verbal questions, but this method also affords the capture of non-verbal questions including body language, which can indicate a level of discomfort with the questions. It also kept focus. The interviewer was the one that had control over the interview and kept the interviewee focused and on track to completion. Finally, it captured emotions and behaviours of 20 interviewees. Face-to-face interviews can no doubt capture an interviewee's emotions and behaviours (Tubei, 2018).

2.1.3 Questionnaires

The questionnaire comprised (65) both closed and open-ended questions. Questionnaires were administered to 234 respondents. Two hundred and thirty four (234) questionnaires out (235) were returned which was 99.6% of the questionnaires administered.

The researcher chose to use questionnaires in this research because they were practical, large amounts of information was collected from a large number of people in a short period of time and in a relatively cost effective way. Could be carried out by the researcher or by any number of people with limited effect on their validity and reliability(Tubei,2018). The results of the questionnaires could usually be quickly and easily quantified by either a researcher or through the use of a software package. Could be analysed more 'scientifically' and objectively than other forms of research. When data has been quantified, it can be used to compare and contrast other researches and may be used to measure change. Positivists believe that quantitative data can be used to create new theories and / or test existing hypotheses. Questionnaires also captured both objective and subjective responses; whereas probing/open ended questions reinforced objective responses by creating clarity (Tubei, 2018).

2.1.3.1 Data validity:

To verify the extent to which the questionnaire and interview guide/schedule would accurately measure what they were supposed to measure, the researcher gave the instruments to experts in field for them to judge whether the instruments were valid or not (Tubei, 2018).

In the same respect, the study employed the Cumulative Validity Index to ascertain validity of the questionnaires that was administered to the respondents.

Thus; $\mathbf{CVI} = \dfrac{\textbf{Number of Questions declared valid}}{\textbf{Total Number of Questions}}$

CVI=60/65=0.92

If **CVI ≥ 0.7** Then the instrument is valid, and there the data collected will also be valid holding other things constant.

2.1.3.2 Data reliability: To ascertain the extent to which the questionnaire and interview schedule were consistent in measuring what they were supposed to measure; that's each time they are used to measure, they give the same results, **Test Retest Method** was used. Before actual data collection, the researcher administered the instruments to 20 people and after a period of around three weeks, the same instrument was administered to the same (20) people. When results of the two tests were compared the deviation was negligible then the instruments were deemed to be reliable. In case there was a lot of difference, the instruments would have been redesigned (Tubei, 2018).

If the questionnaires administered and re-administered giving the same result over total questionnaires is 0.7 ≥ then the instrument will be deemed and subsequently the data collected to be reliable.

2.1.4 Ethical Issues

Confidentiality of the participant's welfare was ensured when their identities were protected and no names were used. According to Polit and Hungler (1997), the participation of human subjects in research, especially if one is researching experiences, must be taken care to ensure the participants are protected. During the interview process, the tape-recorder was used to record all the interviews with the permission granted from the participants. At the end of all the twenty interviews, time was taken to transcribe the data and reflect on it. Data was then coded according to the questions and was used to analyse all the interviews and responses from questionnaires (Tubei, 2018).

3. RESULTS AND DISCUSSION

Study of SMEs firms in State House Slums (2018) shows that 71% SMEs have 1-9 employees, 20.5% have 10-49 employees, 8.5% have 50-100 employees, and 0% have above 100 employees. The main activities of these firms; 0% respondents are in mining; 10.7% respondents are in Construction; 42.7% respondents are in Wholesale or retail trade; 40.6% respondents are in Transport; 5.1% respondents are in Real estate; while only 0.9% respondents are in other services to businesses or person. From the figure above there was no SME engaged in mining. This is because of the large capital outlay needed to be pumped into the business. Commercial construction is the business of building and selling or leasing manufacturing or assembly plants, medical centers, retail shopping centers, and standard space for offices.

Wholesale or retail trade commands many entrepreneurs in State house slum. Wholesale refers to the selling of goods to the customers like retailers, industries, and others in bulk, at a low price. It is a type of business in which goods are being purchased from the producers by the wholesaler in big lots, and then the bulk is split into comparatively smaller lots. A real estate business is a business entity that deals with the buying, selling, management or investment of real estate properties. Many SMEs owners are not engaged in this business due to the large capital needed and which cannot only be sourced from the commercial banks.

As concerns the length of period SMEs have been in existence, 2.1% Companies/firms were registered More than 10 years; 40.6% registered 1 - 5 years or more but less than 10 years; 42.7% were registered 2 years or more but less than 5 years; while 14.5% were registered Less than 2 years ago.

The study Shows that 0% of the firms are owned by Shareholders; 52.6% are owned by Family; 37.2% are owned by Entrepreneurs; while 10.3% are owned by other firms or business associates. Ownership of SMEs is very important because it determines the efficiency and effectiveness with which their operations are seen. Business ownership is individual or entity who owns a business entity in an attempt to profit from the successful operations of the company. Generally has decision making abilities and first right to profit. Business is the activity of making one's living or making money by producing or buying and selling products such as goods and services.

Most of SMEs in State house slums are family owned and they tend to last longer because of the spirit of unity that is inherent in Somali culture. A family-owned business may be defined as any business in which two or more family members are involved and the majority of ownership or control lies within a family. Family-owned businesses may be the oldest form of business organization,(Encyclopedia,2017).

In terms of business ownership family is closely followed by entrepreneurs' ownership. An entrepreneur is an individual who starts and runs a business with limited resources and planning, and is responsible for all the risks and rewards of his or her business venture. The business idea usually encompasses a new product or service rather than an existing business model (Investopedia 2017).Many friends and even relatives contribute to raise capital and start up a business since the effort of getting a loan from the three banks in Hargeisa has proved futile.Inspite of the setbacks, they have been able to perform well because of the entrepreneurial spirit and professionalism behind the business concept.

Most of the traders in Hargeisa Municipality have not borrowed money in the last 12 months. This constitutes 65% of the total number of traders interviewed. However, for those who have borrowed, about 19% have been buying goods from suppliers on credit; while 10% have borrowed from family or friends. About 4% have borrowed from hagbed while the remaining 3% have borrowed from employers, microfinance institutions or remittance companies. The main purpose of borrowing has been to buy goods and services as indicated by 27% of the traders; However, about 3% borrow for emergency or health purposes; 2% borrow for buying house; 2% for building extension or renovation purposes and 1% borrow to pay for school fess and related expenses.

Working capital is offered through account overdrafts (Dahabshiil) or short term loans (Dahabshiil and Salaam). Loans offered by Salaam and Dahabshiil are limited in outreach (e.g. Salaam has only done ~30-40 loans). The lack of commercial banks offering longer term loans for investment creates a challenge for all Somali businesses, as investment for growth and expansion is limited to owners and investors equity. Interestingly, the practice of offering shares to raise capital for investment seems to be more widely used among medium size businesses than in many countries. This appears to be reinforced by the Islamic principles of finance, which require risk sharing rather than lending.

Some lending is being done by Dahabshiil and Salaam, and as their bank branches are established in Hargeisa. The lack of investment capital also impacts public sector investment. Without access to bond markets and with limited investment from traditional sources of developing country capital such as the World Bank, it is difficult to improve infrastructure and other public goods such as cold storage facilities that could contribute to economic growth.

When it comes to most pressing problem facing the firms;13.2% finding customers; 9.8% are facing stiff Competition; 68.4% Accessing to finance; 6.4% Costs of production or labour; 4.3% Unavailability of skilled staff or experienced managers; 3% Regulation; while 0.9% Other.

Finding customers is not easy in the State House Slums is not easy. According to a Harvard Business School study, approximately 75 percent of startups with venture funding will eventually fail. The same study found that a similar percentage of small businesses will fail within the first ten years of existence. Most of the SMEs in the slums offer products and services that are delinked from the needs and wants of the target customers. Well as much as this strategy is viable, SMEs in the slums have no budget allocated to be able to carry out a market research as such due to their small scale level. Another problem facing SMEs is marketing channels they employ to promote their products (Agrawal AJ 2017). Competition among many SMEs in the slums is another impediment to them making a break- even and therefore not able stay the completion course. The slums being a free market many SMEs compete through free enterprises and open market. This competition reduces the income of the SMEs.Those SMEs who lack competitive advantage have been forced to exit the market. The market share they compete for is not big enough to sustain the many existing and new entrants. Access to finance is the most challenge faced by SMEs.Most of them find it difficult in accessing bank loans. This is because Islamic banks are not or reluctant in lending to SMEs.

When it comes to loan lending, Islamic banks lend money without interest. Then the question arises how the banks manages to cater for the operations. The argument propagated is that they levy a service charge that covers its expenses not exceeding the proportionate cost of the operation, excluding the cost of funds and provisions for bad and doubtful debts. Is this not an interest with a different name? This is because the service charge without mentioning is a percentage of the principal borrowed or lent. This charge being constant irrespective of the amount borrowed, it's an incentive to borrowers since the higher the amount borrowed the less the price of borrowing. The borrower is also supposed to pay an additional prescribed fee for all the entries made in the bank's registers. For instance, when a borrower gets a $1,000 from Dahaabshil bank he has to pay service charge plus additional fee amounting to $120.Therefore,what is the difference between this and a%12-15% interest rate charged by conventional commercial banks? The answer is obvious the name. Consumer loans are therefore unattractive since there is no profit to be derived in the form of interests on the loans because there is no interest charged on the loans. It is on this basis that Islamic banks deliberately lending to SMEs. This therefore, compound the challenges SMEs find themselves in.Alternative sources for SMEs to secure funds are as slippery as from Islamic banks. There is an argument that Islamic banks bank set aside loanable funds for consumer loans, provided repayment guaranteed by the government. The government given lack of finance resources to finance the annual budget it would be ironical that it can engage in such a risky transaction.SMEs need long term loans to be able to operate optimally hence it becomes difficult to secure from Islamic banks have concentrated on short-term trade finance which is the least risky. Notwithstanding this the overall notion is that this type of lending is unattractive.

The joint venture of Musharaka and Mudaraba is complicated and difficult to manage by the Islamic banks when it comes to SMEs.This is background of these banks not willing to lend to the SMEs.The question that arises is that, if Islamic banks lend ™loans with a Service Charge. Is this service charge not a fraction of the principal lent? Another question, can this service charge accruing to the banks be enough incentive to make Islamic banks lend to SMEs? And lastly, can this Islamic bank approach bring about economic development unlike conventional banking that is thought to promote unfair engagement and therefore, enough to bring economic growth?

Presently, there is almost negligible flow of equity capital into this sector despite the fact that overall such capital inflow has witnessed significant increase in the recent years. There is, therefore, a need to promote inflow of equity capital into this sector by providing suitable incentives to SMEs-focused angel/venture capital funds as well as by setting up of SME's Exchanges/Platforms. The gap in product offerings prevents Islamic banks from offering SME financing to customers. Islamic banks can consider offering a product structure in line with the overdraft facilities offered by conventional banks.

Debt comparison to the assets of the company over the past 6 months of the firm/company shows that 76.9% Increased; 15% Remained unchanged; 8.1% respondents said debt Decreased; while 0% respondents said debt not applicable, no debt. Many SMEs for the last six months recorded high debt-assets ratio, which means most of them are at a financial risk. Kenton W.2017 defines total debt to total assets as a leverage ratio that defines the total amount of debt relative to assets.

$$\textbf{Total Debt to Total Assets} = \frac{\textbf{Short Term Debt} + \textbf{Long Term Debt}}{\textbf{Total Assets}}$$

Total debt to total assets is a measure of the company's assets that are financed by debt, rather than equity. This leverage ratio shows how a company has grown and acquired its assets over time. Debt servicing payments have to be made under all circumstances; otherwise the company would breach debt covenants and run the risk of being forced into bankruptcy by creditors (Kenton W.2017).

Financial sources used during the past 6 months by SMEs shows 57.3% got from Internal funds;0% from Debt securities issue; 15% from Leasing or hire-purchase or factoring; 1.3% from Other loan (e.g. from a related company or shareholders, excluding trade credit; from family and friends) ;2.1% from Trade credit; 24.4% from Bank loan (excluding overdraft);0% from Bank overdraft, credit line or credit cards overdraft; while 0% from Grants or subsidized bank loan. Many SMEs use their own money to finance their businesses since borrowing from investors and banks is a long process which is also unreliable apart from being expensive in whichever way. This makes sure the business is independent from external interference and running into risk when losses are recorded and debt not paid on time. As much as it possesses the mentioned advantages, it does not provide enough capital outlay carry out large businesses. That is why most the SMEs have not transformed into full-fledged companies that can attract public investment through shareholding.

SMEs external financing needs status over the past 6 months shows that 89.7% firm's external financing needs was from Bank loans; 9.4% Trade credit; 0.9% Equity investments in your firm; while 0% Debt securities issued. Most of the SMEs owners were in need of bank loans than any other type of loans as a source of capital financing of their businesses. Working capital is the money you use to manage your day-to-day operations. Banks sometimes loan short-term money to small businesses to enable them to get off the ground and grow. As the business grows and their own assets enable them to earn money, they can repay the working capital loan to the bank.

Firm's needs status for SME financing over the past 6 months shows 3.4% were for Fixed Investment; 78.6% External funds; 13.7% Internal fund; while 4.3% Mergers & Acquisitions and corporate restructuring. Fixed investment, external funds, internal funds, mergers and acquisitions and corporate restructuring as a way of putting their businesses on course of operations to be able to make profit and enhance sustainability of the businesses were identified by business owners.

Financing applied for over the past 6 months by firms shows that 93% Bank loan (new or renewal); 4.3% Trade credit; while 2.6% other external financing. During the last six months most of the SMEs had applied loans from bank loans. They did this because bank loans form the big reliable source for funding short term and long term business operations compared to any other source. Reasons why a company applied for the above financial products shows that, 84.6% applied because of possible acceptance; 13.7% applied because of insufficient internal funds; while 1.7% applied for other reasons.

Size of the last loan obtained in the last two years by firms shows 14.5% firms did not take a loan; 61.5% firms took Smaller than $25 000; 23.9% firms took $25 000-100 000; 0% took $100 000 – $1 000 000 same to 0% firms that took Over one million dollars. Those who did not take loans had other sources of financing their businesses that were preferable to them than others. A quite a good number took average loan that they could be able to pay as a few went for so much depending the scale of operation of their businesses. This also shows that79.1% firms got loan from Bank; 17.9% from Private individual – family or friend; while 3% from other sources (e.g. microfinance institutions, government-related sources).

On Growth of firms on average per year over the last three years;5.6% of firms grew over 20% per year; 85.9% by Less than 20% per year; 5.6% of firms had no growth; 3% got smaller; while 0% it was not applicable, the firm is too recent.

About confidence to talk about financing with Islamic banks to obtain desired results; 86.3% respondents were of yes; 9.4% responded No; while 4.3% it was not applicable. Most of the SMEs were confident in talking to banks for advice on how to manage their businesses with the banking finance to make profits. They believed that this was professional advice that they needed to be able to remain afloat. Apart from this, they were looking forward on how to outperform their competitors by lowering cost of production and operation.

External financing preferred most to realize growth ambitions by SMEs shows 85.5% preferred Bank loan; 1% preferred Loan from other sources (e.g. trade credit, related company, shareholder, public sources); 1.7% preferred Equity investment;0% preferred Subordinated loans, participation loans or similar financing instruments; while 12% preferred other sources. Most important limiting factors to get financing by firms shows 0% said there are no obstacles; 37.2% said Insufficient collateral or guarantee; 6.4% said price of loan too high; 20.9% said Reduced control over the firm; 22.6% said Financing not available at all;12.8% Other. There is a unanimously agreement among the SMEs there are obstacles in accessing finance. Some had the fear that they lacked collateral to be able to secure finance. Another reason for SMEs not accessing finance especially bank loans is the price of the loan. This in conventional banking system would be called interest rate. With Islamic banks they only charge service charges plus other levies .For example, with some of the banks it comes to about 10%-12% of the amount borrowed. This was costly for acquiring loans from banks.

Prediction on improvement of financing available to the firm over the next 6 months;8% Internal funds, for example from retained earnings and sale of assets; 43.6 % Bank loans; 7.7% Equity investments in your firm;3% Trade credit;0% Debt securities issued; while 11.1% Other, for example loan from a related company or shareholders, excluding trade credit, loan from family and friends, leasing and factoring. There will be improvement in banks extending loans to business concerns because the Dahaabshil and Dara Salam banks oligopoly is wearing out slowly with entry of Premier Bank. This is the tip of the ice berg that more banks will be licensed to operate in Somaliland. Therefore, the former two banks may not dictate to the loan borrowers since there will be alternative for the customer.

When respondents were asked how much they feel when it comes to Islamic banks concerned about moral and ethical concern of the business people and in which business they invest the loan advanced,69% were in agreement,7.6% were strongly in agreement,13.4% disagreed while 7.6% were strongly in disagreement. Morals are the prevailing standards of behavior that enable people to live cooperatively in groups. Moral refers to what societies sanction as right and acceptable. As a matter of fact, while some moral principles seem to transcend time and culture, such as fairness, generally speaking, morality is not fixed. Morality describes the particular values of a specific group at a specific point in time.

Ethics is based on well-founded standards of right and wrong that prescribe what humans ought to do, usually in terms of rights, obligations, benefits to society, fairness, or specific virtues(Manuel . et al 2010).

Finally, being ethical is not the same as doing "whatever society accepts." In any society, most people accept standards that are, in fact, ethical. But standards of behavior in society can deviate from what is ethical. An entire society can become ethically corrupt. Nazi Germany is a good example of a morally corrupt society.

Islam as a comprehensive way of life encompasses a complete moral system that is an important aspect of its world-view. We live in an age where good and evil are often looked at as relative concepts. Islam however, holds that moral positions are not relative, and instead, defines a universal standard by which actions may be deemed moral or immoral. The Glorious Qur'an also says: The things that my Lord hath indeed forbidden are: shameful deeds, whether open or secret; sins and trespasses against truth or reason; assigning of partners to Allah, for which He hath given no authority; and saying things about Allah of which ye have no knowledge. [Al-Qur'an 7:33]. Business ethics is defined as "the process of evaluating decisions, either before or after, with respect to the moral standards of society."Core ethical values include honesty, integrity, fairness, responsible citizenship and accountability (Amith M.2016).

When respondents were asked how much they feel when it comes to conventional banks concern about moral and ethical concern of the business people and in which business they invest the loan advanced,2.4% strongly agreed, 4.6% agreed, 20% disagreed while 70% strongly disagreed. Moral attitudes of some bank employees is below standard as they collude to syphon clients' money. This has been reported all over the world of many frauds committed by bank workers. Lack of moral values has been the major cause of financial crisis. It is on this basis that the public opinion is negative towards commercial banks especially when it comes to loans. They charge high interests and they are not concern with what will happen. In case you default they are happy to attach your property in the name of recovering their loans.

Respondents when asked whether Islamic banks are concerned with both profit maximization and how it is earned, out of 234 respondents; 25% strongly agreed, 65.6% agreed, 2.4% while 7% strongly disagreed. Islamic Banks, like conventional banks, are profit making organizations. However, they are prohibited to trade the riba or to engage in any business that is not in compliance with shariah principles. The Islamic banks activities are based on the principle of buying and selling of assets. It also aims at maximizing profit but subject to *Sharia restrictions.*

The study shows that 4% strongly disagreed, 8% disagreed, 13% agreed while 75% strongly agreed that Conventional banks pursue profit maximization with little regard no central concern to how it is earned. Like the Islamic banks, conventional banks pursue profit higher than the latter.Infact the difference could be in the methods used. Conventional banks earn profits with little regard on how it is earned. They don't concern with scrutinizing where the money is from. It is therefore; on this basis that they have become an avenue for money laundering that is filthy money cleaning. Most of them have been accused by their respective governments on having aided such heinous acts.

On whether both Islamic and conventional banking systems have Banks, Capitals market, Islamic Insurance companies (Takaful) features, the study shows; 25% strongly agreed, 65.6% agreed, 2.4% disagreed while 7% strongly disagreed. Just like conventional financial system , Islamic finance features; Banks, Capitals market, Islamic Insurance companies (Takaful).These entities are governed both by Islamic law and the finance industry rules and regulations that to their conventional counterparts. Conventional banks earn their money by charging interest and fees for services, whereas Islamic banks earn their money by profit and loss sharing, trading, leasing, charging fees for services rendered, and using other sharia contracts of exchange. Conventional capital market is well developed while Islamic capital market is newly developed. Both markets are similar because they are there to fulfill the same need, yet they are different because they serve different customers (Geumei D., 2008).

The Islamic capital market is traded in the same places as the conventional ones since no Islamic only exchanges exist. Asset-backed Financing is one of the most important characteristics of Islamic financing. Islam, on the other hand, does not recognize money as a subject-matter of trade, except in some special cases. Money has no intrinsic utility; it is only a medium of exchange. The conventional / capitalist concept of financing is that the banks and financial institutions deal in money and monetary papers only (Geumei D., 2008). That is why they are forbidden, in most countries, from trading in goods and making inventories. The Islamic Capital Market is only allowed to offer investment instruments for projects that are useful and add a value to the society. The conventional Capital market offer investment instruments for any profitable project whether it is beneficent to the society or not, the only important factor is how profitable and how risky is it only (Geumei D., 2008).

In Islamic capital market risk sharing is essential. So there is no instrument that is considered sharia complaint except when the return is associated with the risk. In conventional capital market, risk is better be avoided. Most derivatives are developed to hedge against risk. And speculation activities are allowed for risk takers to gain money like in gambling. The global economic crisis of 2008-2009 Predestined aggravation of contradictions between the real and financial sectors of the economy. This was the reason for increased interest in Islamic financial institutions that exclude the use of speculative instruments and practices that served as the cause of the deterioration of the western countries and the macroeconomic indicators caused by the Asian financial crisis of 1997-1998(Khafizova, E. K.2016).

On the fact that conventional banking industry, is based on taking deposits and giving out loans while charging interest as a premium;89.5% strongly agreed, 10% agreed, 0.3% disagreed while 0.2% strongly disagreed. Many SMEs fail to personally guarantee their loans. Personal guarantees from business owners are requirements from banks, but that also makes the owner personally responsible for paying back the loan. That's a precarious position for those struggling to stay on top of expenses every month.

Most of SMEs that are at their infancy stage fail to qualify for loans. Banks give preferential treatment to businesses with lengthy and significant track records. After all, they don't want to fund a business that has been operating for a while, but hasn't sustained a certain amount of success and credibility. Banks demand a solid track record of generating profits over a specific time period in order to receive funding. Without that solid operating history, a SMEs will make likely be rejected for a loan.

The study shows that,90% strongly agreed, 8% agreed,1% disagreed, while 1% strongly disagreed that in Islamic finance money is a medium of exchange and cannot earn money by itself. According to Rininta N.et al, 2012 Time Value of money is a fundamental financial theory and a basic element in the monetary system. Basically the Conventional Time value of money results from the concept of interest that prohibited in Islamic principle. The illegitimate of interest-based system in Shari"ah perspective have been ascertained since fifteenth centuries ago. This system has been declared as haram from Shariah point of view (Al Quran: 3: 130).The Conventional Time value of Money is similar with riba, in term of all deferred exchange transactions. While, the time value of money is not rule out in Islamic legal financial theory and practice, as long as it is not part of lending relationship in which it is claimed as a predetermined value (Ahmad and Hassan, 2004). That is why interest representing time value of money stands prohibited. This position is confirmed from the verse "if the debtor is in a difficulty then grant him time till it is easy for him to pay" (al-Baqarah, 2:280).

As for the Islamic perspective, Mohsin (2009) and Meera (2002) found that: Money has no intrinsic value, meaning to say that it cannot be utilized in direct fulfillment of human needs. Money to Islam can only be used to acquire goods or services. It is not a commodity which can be utilized directly without exchanging it for some other things.

The study shows that; 46.7% strongly agreed, 43.3% agreed, 6.7% disagreed while 3.3% strongly disagreed that Islamic Economic System is concerned with Equal Distribution of wealth. Capitalist economies cause people to face the phenomenon called poverty frequently due to crisis they cause (Ahmet Ak et al, 2018).As a result of these searches, Islamic economics comes into prominence as an alternative method. Islamic economics has lots of features and principles taking its source from Koran. It can be said that the most important feature of these principles is to provide fair income distribution. Hence, with a fair income distribution, economic and fiscal order can be reached and social indignation can end.

Distributional Equality: This principal states that main items of national income and

Distribution equality is a very salient Islamic economics principle. This principle states that main items of national income and transfer payments used for the aim of redistribution of income are as follows: zakat, sadaqah, ghanimah, fai, fidth, kharaj and ushr. When examined these features of Islamic Economics rising as an alternative to capitalist system which most of the resources belong to certain individuals or groups, it can be said that the real aim of Islamic Economics is to distribute income fairly (Ahmet Ak et al, 2018).

Main targets of economic policy have to be towards providing a fair income distribution and extending wealth and ownership. In this context, it can be made the following inferences concerning Islamic Economics: Islamic Economics rises as a reaction to injustice of capitalism. Capitalism prevents the transformation of economic power into political power; so, Political power is gathered in a certain point (Ahmet Ak et al, 2018).However, Islamic Economics has a potential to spread political power in various groups of society. Islamic Economics is based on society; not based on individual. That Islamic Economics uses social justice as a financing tool to provide a fair income distribution means that Islamic Economics can reach fair income distribution to collect taxes from wealth.

In Islamic Economics, it is desired to provide a fair income distribution with the taxes like zakat, fidth and so on. Islamic Economics presents a solution opportunity to these crises through a system originated from Islam.

From the study, 50% strongly agreed, 40% agreed, 6.7% disagreed while 3.3% strongly disagreed that Islamic Economic System is concerned with Social justice. Kasim R , 2014, clearly says that the Muslim world has a proud tradition of providing economic and social justice to their diverse citizenry during their ubiquitous leadership of the early Islamic period. Abu H amid Muhammad ibn Muhammad Al-Ghazzâli's ideas on social justice almost one thousand years after they were written, remain a source of insight into Muslim governance and civilization for all well-meaning social scientists interested in global equity at the beginning of this new millennium. Relatively unknown in the West, the thoughts of this medieval Muslim scholar can help construct a contemporary understanding of global equity and social justice

(Randeree, 2008a).Muslims are instructed to regard resources as gifts from Allah (God) which have been delivered as a trust into the hands of the human being, the trustee. Such an idea has implications of vital importance for ownership, either of wealth or of the means of production (Kasim R,2014).Nobody can therefore be a legitimate owner of anything earned through conducting business in activities which are derogatory to the community as a whole (Kuran, 1995). Islam combats and opposes the excessive and disproportionate accumulation of wealth and its concentration in the hands of the few and ensures public ownership and management of utilities in the broadest sense. Excess accumulation of assets, savings, hoarding or stockpiling are to be avoided.

The study shows that, 60% strongly agreed, 16.7% agreed, 13.3% disagreed while 10% strongly disagreed that Islamic finance system fosters Economic Development while conventional finance system fosters economic growth. Islamic banking fosters economic development through utilities like Musharakah, Mudharabah, etc., with a unique profit and loss-sharing principle. This establishes a direct and close relationship between bank's return on investment and the successful operation of the business by the entrepreneurs, which in leads to the economic development of the country. Key Islamic finance segments such as Islamic banking and capital markets continued to support economic growth across the globe by providing Shariah-compliant modes of funding and financing.

In summary, the contribution of Islamic finance to real economic development among others include the inherent nature of Islamic finance which promotes real economic development, the availability of socio-economic tools that could help to improve financial access and foster the inclusion of those deprived of financial services to achieve real economic growth and the availability of formal Islamic financial services in several Muslim-majority markets which previously, have remained largely undeserved by the financial sector due to religious reasons.

From the study; 67% strongly agree, 16.7% agree, 10% disagree while 6.7% strongly disagree that Islamic finance system ensures Optimum Resources Allocation. Islamic banking optimizes allocation of scarce resources through investment of financial resources into projects that considered to be the most; Profitable, Religiously permissible and beneficial of the country.

Optimum allocation is when productive and allocative efficiency co-exist. Mutasim (2009), the Islamic economic system identifies those economically individual differences among people as each person is endowed with different types and levels of human abilities. Thus, even though individuals are provided with equal opportunities, the economic status of two individuals may not be equal. Zakat is not just any form of voluntary or charity alms giving or tax or simply an expression of kindness and generosity. Zakat is all of these combined and much more, for it also includes Allah-consciousness as well as spiritual, moral and social objectives. As the third pillar of Islam, Zakat is first of all an Ibadah (worship) whose spiritual impact on purification and sanctification is Zakat's most important function.

The study also shows; 6.7% strongly agreed,70% agreed,13.3% disagreed while 10% strongly disagreed that Conventional finance system does not ensure Equitable Distribution of resources.

Unlike Conventional banking, Islamic banking ensures equitable distribution of income and resources among the participants parties- the bank, the depositor and entrepreneurs- whit its profit-sharing approach which is one of a kind. According to Chapra (2000), conventional banking system is creating unequal distribution of capital (Chapra, 2000). He says, it would be a great advantage if the interest-based financial intermediation is replaced by the profit and loss sharing system.A mechanism for the redistribution of income and wealth is inherent is Islam, so that every Muslim is guaranteed a fair standard of living **,**nisab**.**An Islamic Zakat a term derived from the Arabic zaka **,**meaning ("pure") is the most important instrument for the redistribution of wealth. This Zaka is a compulsory levy, one of the five basic tenets of Islam and the generally accepted amount of the zakat is one fortieth (2.5 per cent) of Muslim's annual income in cash or kind from all forms of assessed wealth exceeding nisab**.**

From the study;3.3% strongly agreed,10% agreed,10% disagreed while 76.7% strongly disagreed that Conventional finance system is concerned with Optimist Approach on projects they fund. Optimism is a mental attitude reflecting a belief or hope that the outcome of some specific endeavor or outcomes in general, will be positive, favorable, and desirable. A common idiom used to illustrate optimism versus pessimism is a glass filled with water to the halfway: an optimist is said to see the glass as half full, while a pessimist sees the glass as half empty. Theories of optimism include dispositional models, and models of explanatory style. There are different types of optimisms: Dispositional optimism is defined as a global expectation that more good (desirable) things than bad (undesirable) will happen in the future (Scheier and Carver, 1985). As a personality trait, it is presumed to be stable with little scope for change and is alternatively described as big optimism (Peterson, 2000). Optimism as attributional style views optimism as a style of reasoning about cause (Buchanan & Seligman, 1995). Optimists attribute good events with permanence (likely to recur), pervasiveness (the 'goodness' will extend to other future events) and internality (I caused it and can cause it again). Comparative optimism (Radcliffe and Klein, 2002) introduces relativity of expectation of good outcomes for the self-compared with a similar other. Situational optimism refers to the general expectations of a good outcome in a specific context.

On risk sharing between provider of capital (investor) and the user of funds (entrepreneur) in Islamic banking; 50% strongly agreed, 20% agreed, 16.7% disagreed while 13.3% strongly disagreed. The basic features that distinguish Islamic banks from conventional banks are the (i) risk sharing and asset-based financial instruments on both sides of the balance sheet as opposed to debt based risk-transfer financial intermediation; (ii) materiality or preference for financing of real economic transactions; and (iii) avoidance of activities with excessive uncertainty such as short selling or trading of financial derivatives (World Bank, 2015)

Beck et al. (2013) find in a large cross-country sample that Islamic banks are less cost-effective, but have higher intermediation ratios, higher asset quality and are better capitalized, which also explains their better performance during the recent crisis. Similarly, Abedifar et al.(2013) find evidence that Islamic banks have lower credit risk and are more stable than conventional banks and their loan quality is less responsive to domestic interest rate shocks (see also Čihák and Hesse (2010), Pappas, Izzeldin, Fuertes and Ongena (2013), among others).However, when we dig deeper and analyze the composition of Islamic banks financing, we observe that mudarabah investment accounts on the liabilities side that operate according to profit-loss sharing principles have a stronger relationship with intertemporal risk sharing.

The study shows; 61.5% strongly while agreed, 38.5% agreed that service-oriented functions of the Islamic banks are *Zakat collection centre* and they also *pay out their Zakat.* Juristically, Zakaat is the amount of money or wealth that every adult, mentally stable, free, and financially able Muslim, male and female, has to pay to support specific category people. Zakat is obligatory and compulsory to perform immodestly after its conditions. These conditions relate to both the payer and the wealth of the payer; and should be counted as a Mercy from the Almighty Allah. (Adam,A.,2017).

The study shows that,43% strongly,37% agreed,12% disagreed while 8% strongly disagreed that Islamic banks objective is Participation in partnership business. It is therefore, true that Islamic banks pursue partnership in business enterprise. Partnership is good because it creates responsibility on the both parties. This is between the rabul maal (Financier) and mudarib (manager) of the finance. "Profit Loss Sharing (PLS) dominates the theoretical literature on Islamic finance.

Broadly, PLS is a contractual arrangement between two or more transacting parties, which allows them to pool their resources to invest in a project to share in profit and loss.

The study further shows that,75% strongly agreed,14% agreed,6% disagreed while 5% strongly disagreed that Islamic banks have no provision to charge any extra money from the defaulters except for compensation and is used for charitable purposes. As much as in theory it is stated that there is no extra charge in form of interest or fine,it's ironical that the service charges levied are equivalent or even more that what conventional banks charge as interest. Extra charge is levied on defaulters only that it does not accrue to the banks but disbursed to charity work.

The stud shows, 72% strongly agreed, 16% agreed, 9% disagreed while 3% strongly disagreed that importance is given to the public interest or maslahah in Islamic finance system.Public interest would mean Maslahah.Considering its benefits, are aimed to shape the human needs, and hence is such a tool which allows creativity, dynamism and flexibility in terms of social policies.

The findings show that; 57.7% strongly agreed, 15.7% agreed, 13.6% dissatisfied while 13% strongly disagreed that Islamic banks pay greater attention to *developing project appraisal and evaluations*. Project Appraisal is a consistent process of reviewing a given project and evaluating its content to approve or reject this project, through analyzing the problem or need to be addressed by the project, generating solution options(alternatives)for solving the problem, selecting the most feasible option, conducting a feasibility analysis of that option, creating the solution statement, and identifying all people and organizations concerned with or affected by the project and its expected outcomes. (Mcconnell, E., 2018)

From the study, 50.3% strongly agreed, 23% agreed, 13.6% disagreed while 13% strongly disagreed that Islamic banks consider viability of the projects for funding. Considering viability of the project to be funded is very important because it helps in determining the viability of the project. This creates a lot of certainty about the project in question. This shows that the bank has to carry out a Cost-Benefit Analysis on the project to establish whether it will be beneficial or not. Cost-benefit analysis is a simple technique for comparing the business value a project will produce with the cost of producing it. Project managers use cost-benefit analysis in the project initiation phase to show the value of doing a project. The purpose of cost benefit analysis in project management is to have a systemic approach to figure out the pluses and minuses of various paths through a project, including transactions, tasks, business requirements and investments. Cost benefit analysis gives you options, and it offers the best approach to achieve your goal while saving on investment.

Out of 324 respondent,6% strongly agreed,24% agreed,8% disagreed while 62% strongly disagreed that Islamic banks take indirect interest/riba.It is not permissible to put money in *riba*-based banks except for in the absence of Islamic banks or in case of dire need (such as fear of losing, stealing, robbery and like); in which situation, one should only use current accounts that bear no interest, as this will be regarded as a case of committing the lesser of two evils.

The study shows,47.6% strongly agreed,43.4% agreed,5% disagreed while 4% strongly disagreed that Conventional banks risk is in the sale of unknown or uncertain item.Gharar is variously defined in English as 'uncertainty' or 'deceptive uncertainty'. The Qur'an uses the word "al-gharūr" to mean "deceptive.It is sometimes proposed that business investment involves gharar because the outcome is unknown. Take for example a mushārakah investment in which two partners contribute a specified amount of cash in return for a known share of final profit. If the mushārakah partners agreed to share the profits of the venture in a 'fair ratio' without contractually defining what they meant by the word 'fair', major gharar would clearly be in evidence with respect to the contractual terms and such a contract is therefore likely to be judged void.

The study reveals that,58% strongly agreed,22% agreed,6.3% disagreed while 13.7% strongly disagreed that Speculative behavior in business can only promote economic growth but not development. Speculation is and lacks the fairness in business since it brings in the speculator taking advantage of his imagination or prediction. What benefits that accrues from speculation is skewed to the speculator and vice versa is true. Therefore, for fairness in as far as economic development is concerned it doesn't about quality of resource distribution among the economy players, hence fails to achieve the aspect of economic development. At the end of the 19th century, speculation generally meant investing in companies for which you had little or no information. Within a decade, the more common usage was investing in securities where dividends were uncertain. This meant common and, to some extent, preferred stock. Since all dividends are discretionary, all forms of stock were considered speculative.

The study shows that,45% strongly agreed,35% agreed,13% disagreed while 7% strongly disagreed that risk sharing brings sanity in business. The lender and the receiver feel the shared responsibility hence they work to make sure that there is risk occurrence. But on the other hand since risk will be shared at the long end, the parties would become irresponsible in executing their respective responsibility hence this could bring in the risk. Risk sharing means that the premiums and losses of each member of a group of policyholders are allocated within the group based on a predetermined formula.

Also, 5% strongly agreed,65% agreed,16.3% disagreed while 13.7% strongly disagreed that Money is made from money in Conventional banking. Most of the money in our economy is created by banks, in the form of bank deposits – the numbers that appear in your account. Banks create new money whenever they make loans. Banks can create money through the accounting they use when they make loans.

"Commercial [i.e. high-street] banks create money, in the form of bank deposits, by making new loans. When a bank makes a loan, for example to someone taking out a mortgage to buy a house, it does not typically do so by giving them thousands of pounds worth of banknotes. Instead, it credits their bank account with a bank deposit of the size of the mortgage.

The study also shows, 66.3% strongly agreed, 16.7% agreed, 10% disagreed while 7% strongly disagreed that there is reduced risk of false information and moral hazard in Islamic Banking. Sanctity of Contract is a general idea that once parties duly enter into a contract, they must honor their obligations under that contract. Sanctity of contracts is held as a key basis of any understanding between the borrower and the lender during any transaction that goes on throughout. Contractual obligations upheld by Islam and the disclosure of information as a sacred duty lays an important foundation upon which false information disclosure is prohibited. The law protects the sanctity of contracts and existing businesses by making it possible to sue when someone meddles or interferes unfairly with a contract or a business relationship.

The study also shows; 70% strongly agree, 13.3%, 6.7% disagreed while 10% strongly disagreed that lending partner is likely to devour the borrowers property in conventional banking system. {{And [for] their taking of usury while they had been forbidden from it, and their consuming of the people's wealth unjustly. And we have prepared for the disbelievers among them a painful punishment.}}

Surah al-nisa' (4:161)

{{O you who have believed, do not consume usury, doubled and multiplied, but fear Allah that you may be successful.}}

Surah al-'imran (3:130)

From the study; 76.8% strongly agree, 12% agree, 8% disagree while 3.2% strongly disagree that Economic inequality is enhanced in conventional banking system. Inequality is definite in the situation where the lender is guaranteed a positive return without assuming any share of the borrower's risk whereas the borrower takes upon himself all sorts of risks in addition to his skills and labor.''All that we had borrowed up to 1985 was around $5 billion, and we have paid about $16 billion; yet we are still being told that we owe about $28 billion. That $28 billion came about because of the injustice in the foreign creditors' interest rates. If you ask me, what is the worst thing in the world? I will say it is compound interest. …….'' Former President Olusegun Obasanjo speaking after the G8 Summit in Okinawa, Japan in the year 2000.

Also, 50% strongly agreed, 20% agreed, 16.7% disagreed while 13.3% strongly disagreed that Conventional banks hoard their products and service to gain advantage (Investopedia, 2018); Hoarding is the purchase of large quantities of a commodity by a speculator with the intent of pushing up the price.

The study further shows that, 53.7% strongly agreed, 26.3% agreed, 16.3% disagreed while 3.7% strongly disagreed that borrowers are oppressed by Conventional banks. Conventional banks promote oppression (zulm) to the society as much as they show corporate responsibilities. Zulm refers to all form of inequity, injustice, exploitation, oppression and wrong doing. A person either deprives others of their rights or does not fulfill his obligations towards them.Zulm also refers to trading in matters which are prohibited (haram) under Shariah such as: - Page 10 Shariah such as:-alcoholic drinks/beverages; and non halal poultry/meat, pork.

Also; 62% strongly agreed, 22% agreed, 9% disagreed while 7% strongly disagreed that both Islamic and conventional banks operate current accounts for businessmen. Opening a Current Account is one of the essential requirements while starting a business. A current bank account is an account used to facilitate current day-to-day banking transactions. These types of accounts are for business people who perform high volume truncations on daily basis. Current account also offers the facility of overdraft this means you can withdraw money despite non-availability of balance.

The study shows that; 13.4% strongly agreed, 73% agreed, 6.6% disagreed while 7% strongly disagreed that Conventional banking promotes unjust society. There are many ways a person can fit into the category of the *"Unjust"*: by injuring or hurting others, by being unfaithful or treacherous in his business dealings, or by being dishonest. Lying, deceit, greed, laziness, and slander are some of the characteristics of those whom God considers unjust. There is injustice meted on the society at large especially the loan borrowers. Banks have since replaced Commission on Turnover with the account maintenance fee. Although many banks charge maintenance fees, most will waive these fees if your business account balance remains above a certain amount. Ideally, choose an account with no fees. If fees are unavoidable, maintain the minimum balance (Oyetunji, A.2017).

The research also shows that; 15.7% strongly agreed, 78% agreed, 2% disagreed while 4.3% strongly disagreed that Islamic banking eliminates corruption from the society. Moral renovation in Muslim societies appears to be easier to realize than in western societies once its underlying cause, notably poverty, is tackled. Self-restraint is an absolute prerequisite for a successful fight against corruption. Organizational instruments against corruption can only succeed to eliminate corruption only through political leaders committed to weeding out corruption (Zafar, I., (2006).

The study shows that; 12% strongly agreed, 68% agreed, 11% disagreed while 9% strongly disagreed that Conventional banking promotes unlawful appropriation of other people's property. Charging interest on loans advanced to borrowers amounts to unlawful appropriation of other people's property is indicated in the verse from chapter four of the Quran in sura al-Nisa' (Surah Nisa, verse 161).

Also;24% strongly agreed,60% agreed,6% disagreed while 10% strongly disagreed that Conventional banking activities results in negative growth. Saving and investment are two of the most important tools for economic growth. The interest rate has always been considered an important determinant of saving and investment. It is generally accepted that the interest rate has a major impact on a country's saving and investment. ... Riba is an Arabic word, meaning increase or growth; the interest on saving would result in an increase in the final amount payable over and above the original value.

The study furthermore shows; 8% strongly agreed, 80% agreed, 8.3% disagreed while 3.7% strongly disagreed that Islamic banking activities don't diminish human personality. Human personality, Ethics and morality are the most important teachings of Islam.Riba eliminate the ethical factor within the humanity. The more interest is added to the system and the society, the more ethical values will be vanished (Syed, S.2013).

From the study;4.7% strongly agreed,72% agreed,19% disagreed while 4.3% strongly disagreed that Mudarabah OR Qiradh approach is best for business promotion.**Mudarabah is** a partnership in profit between capital and work. ... A **Mudarabah** contract may also be concluded between the Islamic banks, as a provider of funds, on behalf of itself or on behalf of investment account holders, and **business** owners and other craftsmen, including farmers, traders etc. It may be conducted between investment account holder as providers of funds and the Islamic bank as a Mudarib.

The study shows that; 10.3% strongly agreed, 16% agreed, 60.7% disagreed while 13% strongly disagreed that Islamic interest-free economy to businessmen and economists is a doubtful logic. Since 1975, when the first Islamic commercial bank was established in Dubai, Islamic finance has come a long way. One of the foremost critics of the industry, Mahmoud Amin El-Gamal, a professor of economics at Rice University in the United States, considers modern Islamic finance to be "Shari'a arbitrage" wherein what is prohibited in conventional finance becomes permissible when deemed "Shari'a compliant" despite having similar, if not the same, economic substance.

The study shows that; 66.3% strongly agreed, 16.7% agreed, 10.3% disagreed while 6.7% strongly disagreed that both Islamic and conventional banking systems promote business growth. The study shows that, 7.6% Strongly Agreed, 69% Agreed, 13.4% Disagreed while 10% Strongly Disagreed that Islamic banks provides loans on profit-and-loss (PLS) basis to businesses.Mudarabah is an Islamic contract in which one party supplies the money and the other provides management expertise to undertake a specific trade. The party supplying the capital is called owner of the capital. The other party is referred to as an agent who actually runs the business. Under Islamic law, money must not be allowed to create more money. Instead, a bank must provide some service to "earn" its profits.

The study shows, 85.5% Strongly Agreed, 12.8% Agreed, 1.3% Disagreed while 0.4% Strongly Disagreed that Conventional banking corrupts the society through charging riba(interest) on loans advanced to borrowers**.**Riba is a concept in Islamic banking that refers to charged interest. It has also been referred to as usury, or the charging of unreasonably high interest rates. There is also another form of riba, according to most Islamic jurists, which refers to the simultaneous exchange of goods of unequal quantities or qualities.

The study also shows, 76.9% Strongly Agreed, 21.4% Agreed, 0.9% Disagreed while 0.9% Strongly Disagreed that Zakat plays various functions in the economy. First, Zakat helps reforming both financially and spiritually in society. It eliminates misery and greed from hearts and consolidates the Islamic economy, leading to its stability and prosperity. Second, for the production to grow without check in an economy, the money must circulate. Hoarding of funds is a prime reason for the depressions and slowdowns in the economy in the modern economic era as people save more and spend less, resulting loss in the business and lay off employees resulting further slowdowns in the economy. (Adam, A., 2017). The payment of Zakat is compulsory on the excess wealth which is equal to or exceeds the value of Nisaab, and which is possessed for a full Islamic year. If such wealth decreases during the course of the year and increases again to the value of Nisaab before the end of the year, the Zakat then must be calculated on the full amount that is possessed at the end of the year. (Adam, A., 2017).

The study shows that, 91.1% Strongly Agreed, 8.1% Agreed, 0.4% Disagreed while 0.4% strongly Disagreed that an economy that combines both Islamic and Conventional economic systems will develop fast. Making use of the advantages of each of these two economic financial systems is an optimum accelerator of not only economic growth but in essence economic development in the world.

TABLE 3.1: SOCIOECONOMIC CHARACTERISTIC OF 234 RESPONDENTS.

VARIABLES	FREQUENCY	% OF TOTAL
SEX OF RESPONDENTS		
Male	184	78.6%
Female	50	21.4%
AGE OF RESPONDENTS (In years)		
25 -30years	36	15.4%
31 -35years	40	17.1%
36 -40years	30	12.8%
40years Above	128	54.7%
MARITAL STATUS OF RESPONDENTS		
Married	102	43.6%
Single	110	47.0%
Widowed	22	9.4%
EDUCATIONAL QUALIFICATION		
Madrasa	15	6.4%
Elementary	20	8.4%
Primary	34	14.5%
High School	120	51.3%
University	45	19.2%
FIRM'S/SMEs NO OF EMPLOYEES		
1-9	166	71%
10-49	48	20.5%
50-100	20	8.5%
Above 100	0	0%
MAIN ACTIVITIES OF THE FIRMS		
Mining	0	0%
Construction	25	10.7%
Wholesale/retail	100	42.7%
Transport	95	40.6%
Real Estate	12	5.1%
Others	2	0.9%
LENGTH OF PERIOD SMES IN EXIXTENCE		
Less than 2 years	34	14.5%
2-5 years	100	42.7%
Over 5 years	95	40.6%
Over 10 years	5	2.1%
FIRM/SMES OWNERSHIP		
Shareholders	0	0%
Family	123	52.6%
Entrepreneurs	8	37.2%
Other firms or business associates	24	10.3%

Source: Field Survey, 2018.

Table 3.2: Distribution of responses According to Questions and Hypotheses

VARIABLES	FREQUENCY	% OF TOTAL
MOST PRESSING PROBLEM FACING THE FIRMSSMEs		
Finding customers		13.2%
Facing stiff Competition		9.8%
Accessing to finance		68.4%
Costs of production or labour		6.4%
Unavailability of skilled staff or experienced managers		4.3%
Regulation		3%
Other.		0.9%
DEBT COMPARISON TO THE ASSETS OF THE COMPANY OVER THE PAST 6 MONTHS		
Increased		76.9%
Remained unchanged		15%
Decreased		8.1% Not
applicable		0%
FINANCIAL SOURCES USED DURING THE PAST 6 MONTHS BY SMES		
Internal funds		57.3%
from Debt securities issue		0%
Leasing or hire-purchase or factoring		15%
Trade credit		2.1%
Bank loan (excluding overdraft)		24.4% Bank
overdraft, credit		0% Line or
credit cards overdraft;		0% Grants or
subsidized bank loan		0% Other loan e.g.
from a related company or shareholders,		1.3%
SMES EXTERNAL FINANCING NEEDS OVER THE PAST 6 MONTHS		
Bank loans		89.7%
Trade credit		9.4%
Equity investments in the firm		0.9% Debt
securities issued		0%
SMES' FINANCING OVER THE PAST 6 MONTHS		
Fixed Investment		3.4%
External funds		78.6%
Internal fund		13.7%
Mergers & Acquisitions and corporate restructuring		4.3%
FINANCING APPLIED FOR OVER THE PAST 6 MONTHS BY FIRMS		
Bank loan (new or renewal)		93%
Trade credit		4.3%
Other external financing		2.6%
REASONS WHY SMES APPLIED FOR ABOVE FINANCIAL PRODUCTS		
Possible acceptance		84.6%
Insufficient internal funds		13.7% Other
reasons		1.7%
SIZE OF THE LOAN OBTAINED IN THE LAST TWO YEARS BY SMES		
$5,000-15,000		4.5%
$000-25000		61.5% $25
000-100 000		23.9% $100
000 – $1 000 000		0% Over one
million dollars.		0%
SOURCES OF LOANS OBTAINED BY SMES		
Banks		79.1%
Private individual – family or friend		17.9%
Other sources e.g. microfinance		3%
GROWTH OF FIRMS ON AVERAGE PER YEAR OVER THE LAST THREE YEARS		
Over 20% per year		5.6% Less
than 20% per year		85.9% No
growth		5.6%
Negative Growth		3% Not
applicable		0%
CONFIDENCE TO TALK ABOUT FINANCING WITH ISLAMIC BANKS TO OBTAIN DESIRED RESULTS		
YES		86.3% NO
9.4%	NOT	APPLICABLE
4.3%		
External financing preferred most to realize growth ambitions by SMEs		
Bank loan		85.5%
Loan from other sources (e.g. trade credit, related company, shareholder, public sources)		1% Equity
investment		1.7% Other sources
12%		

Limiting factors to get financing by firms
No obstacles 0%
Insufficient collateral or guarantee 37.2% Price
of loan too high 6.4% Reduced control
over the firm 20.9% Financing not available at all
22.6% Other
12.8%
Prediction on improvement of financing available to the firm over the next 6 months
Internal funds 8%
Bank loans 43.6 % Equity
investments in the firm 7.7% Trade credit
3% Debt securities issued 0% Other
11.1%
Islamic banks about moral and ethical concern of business in which they invest
Strongly Agreed 7.6% Agreed
69% Disagreed 13.4%
Strongly Disagreed 7.6%
Conventional banks about moral and ethical concern of business in which they invest
Strongly Agreed 2.4% Agreed
4.6% Disagreed 20%
Strongly Disagreed 70%
Islamic banks are concerned with both profit maximization
Strongly Agreed 25% Agreed
65.6% Disagreed 2.4%
Strongly Disagreed 7%
Conventional banks pursue profit maximization
Strongly Disagreed 4%
Disagreed 8%
Agreed 13%
Strongly Agreed 75%
Islamic and conventional banking systems have Banks, Capitals market, Islamic Insurance companies (Takaful) features.
Strongly Agreed 25% Agreed
65.6% Disagreed 2.4%
Strongly disagreed 7%
Conventional Banking Industry, is based on taking deposits and giving out loans while charging interest as a premium
Strongly Agreed 89.5%
Agreed 10%
Disagreed 0.3%
Strongly Disagreed 0.2%
In Islamic finance money is a medium of exchange and cannot earn money by itself
Strongly Agreed 90%
Agreed 8%
Disagreed 1%
Strongly Disagreed 1%
Islamic Economic System is concerned with Equal Distribution of wealth
Strongly Agreed 46.7% Agreed
43.3% Disagreed
6.7% Strongly Disagreed
3.3%
Islamic Economic System is concerned with Social justice
Strongly Agreed 50%
Agreed 40%
Disagreed 6.7%
Strongly Disagreed 3.3%
Islamic finance system fosters Economic Development while conventional finance system fosters economic growth
Strongly Agreed 60%
Agreed 16.7%
Disagreed 13.3%
Strongly Disagreed 10%
Islamic finance system ensures Optimum Resources Allocation
Strongly Agree 67% Agree
16.7% Disagree 10%
Strongly Disagree 6.7%
Conventional finance system does not ensure Equitable Distribution of resources.
Strongly Agreed 6.7% Agreed
70% Disagreed 13.3%
Strongly Disagreed 10%
Conventional finance system is concerned with Optimist Approach on projects they fund.
Strongly Agreed 3.3% Agreed
10% Disagreed 10%
Strongly Disagreed 76.7%
There is risk sharing between provider of capital (investor) and the user of funds (entrepreneur) in Islamic banking
Strongly Agreed 50% Agree
20% Disagreed 16.7%
Strongly Disagreed 13.3%
Service-oriented functions of the Islamic banks are *Zakat collection centre* and they also *pay out their Zakat*

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Strongly Agreed	61.5% Agreed
38.5%	Disagreed
0% Strongly Disagreed	0%
Islamic banks objective is Participation in partnership business	
Strongly Agreed	43%
Agreed	37%
Disagreed	12%
Strongly Disagreed	8%
Islamic banks have no provision to charge any extra money from the defaulters except for compensation and is used for charitable purposes	
Strongly Agreed	75%
Agreed	14%
Disagreed	6%
Strongly Disagreed	5%
Importance is given to the public interest or maslahah in Islamic finance system	
Strongly Agreed	72%
Agreed	16%
Disagreed	9%
Strongly Disagreed	3%
Islamic banks pay greater attention to *developing project appraisal and evaluations*	
Strongly Agreed	57.7% Agreed
15.7%	Disagreed
13.6% Strongly	Disagreed
13%	
Islamic banks consider viability of the projects for funding	
Strongly Agreed	50.3%
Agreed	23%
Disagreed	13.6%
Strongly Disagreed	13%
Islamic banks take indirect interest/riba	
Strongly Agreed	6% Agreed
24% Disagreed	8%
Strongly Disagreed	62%
Conventional banks risk is in the sale of unknown or uncertain item	
Strongly Agreed	47.6%
Agreed	43.4%
Disagreed	5%
Strongly Disagreed	4%
Speculative behavior in business can only promote economic growth but not development	
Strongly Agreed	58%
Agreed	22%
Disagreed	6.3% Strongly
Disagreed	13.7%
Risk sharing brings sanity in business.	
Strongly Agreed	45% Agreed
35% Disagreed	13%
Strongly Disagreed	7%
Money is made from money in Conventional banking	
Strongly Agreed	5%
Agreed	65%
Disagreed	16.3%
Strongly Disagreed	13.7%
There is reduced risk of false information and moral hazard in Islamic Banking	
Strongly Agreed	66.3%
Agreed	16.7%
Disagreed	10%
Strongly Disagreed	7%
Lending partner is likely to devour the borrowers property in conventional banking system	
Strongly Agree	70% Agreed
13.3% Disagreed	6.7%
Strongly Disagreed	10%
Economic inequality is enhanced in conventional banking system	
Strongly Agree	76.8% Agree
12% disagree	8%
Strongly Disagree	3.2%
Conventional banks hoard their products and service to gain advantage	
Strongly Agreed	50% Agreed
20% Disagreed	16.7%
Strongly Disagreed	13.3%
Borrowers are oppressed by Conventional banks	
Strongly Agreed	53.7% Agreed
26.3% Disagreed	16.3%
Strongly Disagreed	3.7%
Both Islamic and conventional banks operate current accounts for businessmen	
Strongly agreed	62% Agreed
22% Disagreed	9%

Strongly Disagreed	7%
Conventional banking promotes unjust society	
Strongly Agreed	13.4%
Agreed	73%
Disagreed	6.6%
Strongly Disagreed	7%
Islamic banking eliminates corruption from the society.	
Strongly Agreed	15.7%
Agreed	78%
Disagreed	2%
Strongly Disagreed	4.3%
Conventional banking promotes unlawful appropriation of other people's property	
Strongly Agreed	12%
Agreed	68%
Disagreed	11%
Strongly Disagreed	9%
Conventional banking activities results in negative growth	
Strongly agreed	24% Agreed
60% Disagreed	6%
Strongly Disagreed	10%
Islamic banking activities don't diminish human personality.	
Strongly Agreed	8% Agreed
80% Disagreed	8.3%
Strongly Disagreed	3.7%
Mudarabah OR Qiradh approach is best for business promotion	
Strongly Agreed	4.7% Agreed
72% Disagreed	19%
Strongly Disagreed	4.3%
Islamic interest-free economy to businessmen and economists is a doubtful logic	
Strongly Agreed	10.3%
Agreed	16%
Disagreed	60.7%
Strongly Disagreed	13%
Both Islamic and conventional banking systems promote business growth	
Strongly agreed	66.3% Agreed
16.7% Disagreed	10.3%
Strongly Disagreed	6.7%
Islamic banks provides loans on profit-and-loss (PLS) basis to businesses	
Strongly Agreed	7.6%
Agreed	69%
Disagreed	13.4%
Strongly Disagreed	10%
Conventional banking corrupts the society through charging riba(interest) on loans advanced to borrowers	
Strongly Agreed	85.5% Agreed
12.8% Disagreed	1.3%
Strongly Disagreed	0.4%
Zakat plays various functions in the economy.	
Strongly Agreed	76.9%
Agreed	21.4%
Disagreed	0.9%
Strongly Disagreed	0.9%
Economy that combines both Islamic and Conventional economic systems will develop fast.	
Strongly Agreed	91.1% Agreed
8.1% Disagreed	0.4%
strongly Disagreed	0.4%

Source: Field Survey, 2018.

4. CONCLUSIONS

Firms' employees demand has a direct correlation with the activities they are engaged in slum, as much as it is populated, the purchasing power of the people is low, and hence stock turnover is slow.

Slums being a predominantly a consumption market, none of the firms are involved in mining activities. Most of the firms are involved in Wholesale or retail Trade and Transport. Therefore, business men chose activity that will attract them a market for their goods and services.

In essence these SMEs are not very old enterprises in the market. Therefore, they have not really built a big goodwill to guarantee them a bigger market share. None of the firms are owned by Shareholders. This is because in Somaliland there is listing of companies on Stock Exchange Market. Most are owned by Family because the clan ties is very strong, where the clansmen come together contribute money and give to one of them as a capital to start a business. There is more trust among family members than among Entrepreneurs.

As firms endeavor to succeed in business they face many hurdles. Most of them accessing finance to expand their businesses are a problem. Without finance they cannot come up with a marketing strategy that enable them finding more customers, and therefore reduce stiff Competition.Also,finance can make it easier to access unavailability of skilled staff or experienced managers. In most of the firms Debt compared to the assets increased; In a handful of them remained unchanged while few debt decreased. This indicates that the cost of business operation is increasing as compared to returns.

Most of the firms got their finance from internal funds and Bank loan (excluding overdraft).This is because they are the most available source of finance. None got from Debt securities issue, Bank overdraft, credit line or credit cards overdraft and Grants or subsidized bank loan. This is so due to unavailability of these bank products in Somaliland.

Out of all external sources of funds for the companies most of them were for Bank loans and a handful for Trade credit, while few were for Equity investments and none for Debt securities issued. This is because money markets as well as security markets are not developed in Somaliland.

Most of Firm's needs for company financing was in External funds and internal fund at 78.6% and 13.7%.While a handful of firms sought from Fixed Investment and Mergers & Acquisitions and corporate restructuring. External and internal funds remain the highest for financing company operations. Most of the firms apply for Bank loan (new or renewal) at 93% while a handful applied for Trade credit and other external financing.

From those who didn't apply for certain financial product most did not apply because of possible rejection and a few did not apply because of sufficient internal funds. Obstacles in accessing a given financial product play a big role whether a company will apply for it or not.

Banks provided loans to most of the companies and Private individual – family or friend provided to a few companies, while other sources (e.g. microfinance institutions, government-related sources) provided to few companies.

Over the last three years, most of the company's growth on average a few firms was over 20% per year and a most was by less than 20% per year. On the other hand, few firms had no growth and few others got smaller.

Most of the firms have confidence to talk about financing with Islamic banks to obtain desired results while a few have no confidence in approaching Islamic banks operating in Somaliland.

No one hand Most firms prefer bank loans and a few prefer other sources to realize growth ambitions. On the other hand, few prefer Loan from other sources (e.g. trade credit, related and company, shareholder, public sources) and Equity investment respectively.

Most of the firms are unable to access financing because of insufficient collateral or guarantee while a few it's because it will reduce their control over the firms and price of loan being too high.

Over the next 6 months there will be most Improvement of financing available to the firms from Bank loans followed by Internal funds, for example from retained earnings and sale of assets. A small improvement will be realized in Equity investments, Trade credit and Other, for example loan from a related company or shareholders, excluding trade credit, loan from family and friends, leasing and factoring.

Most of the responses are showing a positive trend for the Islamic banking. This shows a growth of the Islamic banking industry as the Islamic bank way of doing business with customers in our study is showing better performance than the conventional banks which are seen as vehicles of fleecing unsuspecting customers. More so, making them poor than they were found before borrowing.

The future of Islamic banking seems brighter than the conventional banking in Somaliland and even in the whole world as other studies have shown that the Islamic banking has not suffered from the global financial crisis to the extent conventional banking is suffered. Despite the above, an economic system that adapts both Islamic and Conventional has higher chances of upward trend and stability.

5. RECOMMENDATIONS

There is need for policy makers in Somaliland to develop policies that will make consumption market vibrant since most of SMEs are engaged in activities related to consumption.

Somaliland government needs to develop a stock Exchange market, to enable ownership of companies to go shareholders.

Money Market need to be expanded to provide different financial products that suit different firma needs.

There is need for banks to make sure there are no strict conditions for SMEs to access finance.

Firms need to use loans from banks prudently to be able to overturn the increasing debt over assets.

Banks need to build capacity of most firms in how to spread the loan on diversified business portfolios so that they don't invest in one activity.

For a country to achieve the Sustainable Development Goals through promoting SMEs both financial systems are supposed to be combined. Therefore, no country will achieve this by employing one type of financial system.

Owing to the fact that this research report is not exhaustive, that's not being able to get facts on different issues surrounding Islamic finance and SMEs,it is therefore, advisable for further research on issues bedeviling SMEs in Somaliland especially areas that are in need of these services. The following are recommended areas for further research;

- The nature of Islamic finance and its appropriateness for SMEs in Somaliland.
- Islamic finance products to SMEs in Somaliland
- Constraints other than finance Faced by SMEs in Somaliland.

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