

# Leveraging Islamic Banking for Economic Recovery in Post-Conflict Somalia

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**Abstract:** *This paper explores the role of Islamic banks in facilitating Somalia's post-conflict economic recovery, emphasizing financial inclusion, entrepreneurship, and infrastructure investment. Drawing on qualitative analysis of secondary sources, including academic literature, policy documents, and reports from global financial institutions, the study highlights how Islamic banking aligns with Somalia's socio-religious values and supports economic revitalization. Despite its promise, Islamic banking in Somalia faces regulatory and capacity-related challenges. The paper concludes with policy recommendations to strengthen Islamic financial institutions and enhance their contribution to sustainable recovery.*

**Keywords:** Somalia, Islamic banking, financial inclusion, post-conflict recovery, Sharia compliance

## 1. Introduction

Having endured decades of civil conflict, Somalia faces the dual challenge of rebuilding its infrastructure and restoring its financial systems and institutions, many of which were severely disrupted or dismantled during the conflict (Ali, 2023). The re-emergence of Islamic banking provides a mechanism that aligns with the Islamic values of the Somali population while promoting inclusive and ethical financial development (Hassan, 2022).

Sharia prohibits interest (riba) and excessive uncertainty (gharar) but permits risk-sharing and asset-backed transactions (Abdullahi, 2024). In this context, Islamic banks can support entrepreneurial and economic growth without exploiting borrowers. Their principles also help rebuild trust in a community that is skeptical of financial liberalization influenced by external models.

This paper aims to examine the contribution of Islamic banks to Somalia's post-conflict economic recovery, particularly through entrepreneurship development, microfinance, and infrastructure investment.

### 1.1 Significance of the Study

This study is significant because it demonstrates how faith-based financial systems can contribute to rebuilding trust and fostering development in fragile states, offering a model that may be replicable in other post-conflict societies.

## 2. Literature Review

### 2.1 Post-Conflict Reconstruction

The rehabilitation of countries that have undergone civil conflicts occurs at different stages and levels. Reconstruction involves not only building relevant institutions but also addressing the healing of societies (North, 2023). Banks play a critical role by facilitating investment flows and restoring trust in financial systems disrupted during the conflict (Hersi, 2022). Establishing functional banks in fragile states also

encourages trade and provides employment opportunities (Benson, 2023).

### 2.2 Islamic Banking

Islamic finance emphasizes values such as justice, equity, fairness, avoidance of exploitation, and shared risk (Rashid, 2025). Through products such as Murabaha (cost-plus contract), Mudarabah (profit-sharing), Musharakah (joint ventures), and other Sharia-compliant instruments, banks assist clients in securing funding for investment and strengthening their relationships in what is referred to in linguistic literature as the "Sakina feeling". Islamic banking also supports economic activity in fragile states by providing finance to devout Muslims and others committed to Islamic principles (Ali & Noor, 2023). Recent reports indicate that Islamic banks account for over 80% of total financial assets in Somalia (Khalif, 2024).

### 2.3 Empirical Works

Empirical studies from post-conflict regions such as Afghanistan and Sudan show that microfinancing through Islamic finance empowers local economies by directing savings toward local initiatives (Yusuf, 2023). Similar initiatives in Somalia, such as Qard Hasana-based microfinance, support youth and women in starting businesses (Farah, 2024).

## 3. Methodology

This study adopts an advocacy approach and proceeds with a qualitative descriptive methodology, using secondary data sourced from policy papers, journal articles, and financial reports (Mark, 2025). The research design involves three steps: data collection from reliable databases and institutional reports, content analysis, and triangulation of data from multiple sources. The study period is limited to Somalia's recovery after 2012, and literature was identified using keywords such as "Islamic banking," "Somalia," and "post-conflict finance."

## 4. Findings and Discussion

### 4.1 Improving Financial Inclusion

Islamic banks have enhanced financial inclusion in post-conflict Somalia. More than 40% of adult Somalis access financial services via these products, both in the capital city and in other regions such as Hargeisa, Garowe, and remote areas (Ali, 2023).

### 4.2 Growing Traders

Many Somali micro- and small businesses rely on finance from Islamic financiers. Murabaha and Mudarabah contracts provide trade finance based on trust (Abdullahi, 2024).

### 4.3 Infrastructure Development

Through partnerships, Islamic banks have helped fund energy, housing, and transport initiatives, contributing to state-building. These investments have significantly contributed to job creation and market participation (Khalif, 2024).

### 4.4 Social Trust and Stability

Because Islamic banking aligns with widely held religious and social values, it helps rebuild social trust. It is essential for institutions to reflect the values and identity of the population they serve (Rashid, 2025).

### 4.5 Institutional Challenges

Sharia banking infrastructure faces challenges, including the absence of a central Sharia board, limited qualified personnel, low capital adequacy, and insufficient focus on forensic and commercial risk management (Farah, 2024).

## 5. Policy Recommendations

To strengthen Islamic banking's role in Somalia's recovery, the study recommends:

- 1) Establishing a national Sharia supervisory board and clearer regulatory frameworks (Mark, 2025).
- 2) Introducing "Islamic finance" courses in universities to enhance human capital (Ali, 2023).
- 3) Expanding micro- and small-scale financing programs for SMEs.
- 4) Partnering Islamic banks with international development agencies for infrastructure projects.
- 5) Encouraging global Islamic investment management firms to engage with rural communities (Rashid, 2025).

## 6. Conclusion

Islamic banking has established a vital niche in Somalia, where conventional banking has often failed. By anchoring economic interaction in social norms aligned with Islam, Islamic banks have created a credible haven of trust, entrepreneurship, and inclusive progress. That said, for Muslims in the country to fully benefit from Islamic banking, further work is required in enabling legislation, regulatory frameworks, and financial and ethical education. Authorities

should therefore regard Islamic banking as a complementary component of Somalia's overall reconstruction effort rather than as an alternative to the existing system.

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