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The impact of fintech and mobile banking on the future of islamic finance in somalia: Pathways to sustainable economic development

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Abstract

This article examines how financial technology (FinTech) and mobile banking are transforming Islamic finance and, thereby, contributing to the sustainable development of the economy in Somalia. Using qualitative methodologies based on a review of the documentation of published academic studies, government reports, international institution reports, and presentations at conferences, this study demonstrates that the incorporation of Shariah-compliant FinTech applications will contribute to the promotion of inclusive finance, to the acceleration of business expansion and to sustainable economic development in Somalia. The study reveals that although FinTech facilitates the enhancement of financial inclusion and transparency in Somalia, there is a challenge to the successful implementation of FinTech due to the absence of an overarching Shariah governance framework and FinTech regulations in Somalia. The article ends with recommendations for the development of an equilibrium FinTech application-based on Islamic finance principles.

Keyword: Islamic finance, fintech, mobile banking, economic development, shariah compliance, somalia, financial inclusion

Introduction

FinTech has become a significant transformative force in the delivery of financial services throughout the world, especially in developing and post-conflict economies (Alam, Gupta, & Zamir, 2022) ^[3]. In Somalia, which has faced many years of conflict, and whose formal banking infrastructure remains undeveloped, mobile banking and FinTech innovations have provided greater access to financial services than ever before (Ali & Hassan, 2021; IMF, 2023) ^[4, 13].

Since Somalis are Muslims, Islamic finance forms the moral/ethical basis of all financial transactions in Somalia (Chapra, 2016) ^[7]. The combination of Islamic finance with FinTech creates new opportunities to increase financial inclusion, to promote the equitable distribution of wealth, and to improve economic resilience (Ahmed, 2020; Hassan, Paltrinieri, & Khan, 2022) ^[2, 11].

Therefore, this study aims to investigate the influence of FinTech and mobile banking on the future development of Islamic finance and the overall economy of Somalia. The results of this study will have direct implications for policymakers, regulators and Islamic financial institutions seeking to create alignment between digital innovation and Shariah principles.

Literature Review

Islamic Finance and Developmental Ethics

Islamic finance focuses on providing financing through equity, transparency and risk sharing instead of through interest bearing transactions (Iqbal & Mirakhor, 2017) ^[14]. As a result, Islamic financial institutions are employing core instruments, including musharakah (joint venture) and murabahah (cost-plus financing) to facilitate asset-backed, socially responsible, and ethically-based financing to meet the UN Sustainable Development Goals (Ahmed, 2020) ^[2]. Prior studies demonstrate a high degree of correlation between Islamic financial development and inclusive growth in Muslim-majority countries (Adamu & Hussain, 2020) ^[1].

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FinTech Transformations in Islamic Economies

FinTech enhances accessibility to Shariah-compliant financial products by utilizing digital platforms for payment processing, crowdfunding and peer-to-peer lending (Elasrag, 2021; Zulkhibri, 2022) [8, 22]. According to the Islamic Financial Services Board (IFSB, 2023), digital Islamic finance sectors are growing rapidly in Muslim-majority countries. Researchers indicate however, that achieving Shariah compliance in algorithmic-driven systems requires well-established governance structures (Khan & Ahmed, 2020) [2].

Somalia's Developing Digital Finance Ecosystem

According to estimates, over 80% of adult Somalis use mobile phones to send and receive money (World Bank, 2023). Many service providers such as EVC Plus and Sahal Pay are extensively used for sending remittances and micro transactions (Omar & Yusuf, 2022) [18]. Nevertheless, the lack of an overarching regulatory framework for Shariah-compliant digital finance limits the potential for the integration of Islamic finance and FinTech (Hashi, 2021; CBS, 2021) [10, 6]. The National Financial Inclusion Strategy (NFIS, 2022) outlines a plan to formalize these systems through digital regulation and Islamic banking reform.

Literature Gap

While FinTech and mobile money have been examined extensively globally (Haron & Rahman, 2022; Mohamed & Warsame, 2023) [9, 16], little research has explored their effects on Somalia's precarious institutional context. Therefore, this study addresses this knowledge gap by analyzing the ways in which FinTech may contribute to promoting Islamic financial services and equitable development.

Methodology

This research employed a qualitative document analysis method suitable for studying emerging socio-financial phenomena in environments characterized by a dearth of quantitative data (Bowen, 2009) [5]. Data were collected from:

- Peer-reviewed scholarly journals related to Islamic finance and FinTech (2010-2024);
- Government policy documents and the National Financial Inclusion Strategy;
- Reports issued by the World Bank, IMF and UNCTAD;
- Proceedings from East African Islamic finance forums.

Themes identified in the thematic analysis were recurring categories - financial inclusion, Shariah compliance and digital transformation. By triangulating multiple sources, methodological validity and reliability were achieved.

Results and Discussion

FinTech as a Driver of Financial Inclusion

FinTech and mobile banking have made it possible for millions of Somalis to engage in the financial system. Low-cost digital platforms enable customers to save, borrow and make payments (Ali & Hassan, 2021; World Bank, 2023) [4, 21]. As a result, the digital platform enables greater inclusion for women and low-income families, who historically have been excluded from formal banking (Adamu & Hussain,

2020) [1]. Moreover, the integration of digital platforms with Islamic finance provides a legitimate way for entrepreneurship and small and medium-sized enterprises (SMEs) to develop (Hassan *et al.*, 2022) [11].

Shariah Compliance and Technological Governance

Maintaining Shariah compliance in rapidly evolving digital systems raises regulatory challenges. Allowing automated contracts and algorithms to comply with Islamic commercial jurisprudence necessitates the elimination of *riba* (interest) and avoidance of *gharar* (uncertainty) (Iqbal & Mirakhor, 2017) [14]. Therefore, a national Shariah FinTech supervisory board would be able to establish uniform standards, similar to those established by Malaysia's Shari'ah Advisory Council (Khan & Ahmed, 2020; Zulkhibri, 2022) [2, 22].

Macro-Economic and Developmental Implications

FinTech also contributes to macro-economic stability by facilitating formalized transactions and enabling remittances to flow towards productive sectors such as agriculture and construction (UNCTAD, 2022). Additionally, the digitalization of remittance channels has the potential to positively affect Somalia's Gross Domestic Product (GDP) and to allow for the collection of taxes in a transparent manner (IMF, 2023) [13]. Researchers note that countries which successfully integrate Islamic finance into digital systems often experience improved economic diversity and social welfare (Rahman, 2021; Haron & Rahman, 2022) [19, 9].

Challenges for Policymakers and Institutions

Although there are positive developments, Somalia's regulatory environment continues to be fragmented. The Central Bank Act (CBS, 2021) [6] does not currently contain provisions to regulate Islamic digital finance. Best practices from neighboring countries in Sudan, Kenya and Malaysia (Hassan *et al.*, 2022; IFSB, 2023) [11, 12] can be useful in addressing this regulatory void. Effective collaboration among policymakers, Islamic scholars and FinTech innovators is required for long-term digital transformation (Mohamed & Warsame, 2023) [16].

Conclusion and Policy Recommendations

FinTech and mobile banking have transformed Somalia's Islamic financial sector and offer substantial potential for increasing financial inclusion and economic growth. However, the full potential of Islamic FinTech can only be achieved when regulators align innovation with Shari'ah principles and ensure adequate consumer protection.

Recommendations for Policymakers

- Develop a National Islamic FinTech Framework under the Central Bank of Somalia to regulate and certify FinTech applications.
- Encourage public-private partnerships among Islamic banks, telecommunications companies and regulators.
- Implement programs of financial education to raise awareness about digital Islamic finance.
- Introduce diaspora remittances through Shariah compliant digital investment platforms to support small and medium-sized enterprises.

By linking FinTech innovation to Islamic finance ethics, Somalia can establish itself as a paradigm for inclusive, sustainable financial development in the Horn of Africa.

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