International Journal
of
Research in Finance and Management

P-ISSN: 2617-5754
E-ISSN: 2617-5762
IJRFM 2025; 8(2): 957-959
www.allfinancejournal.com
Received: 18-10-2025
Accepted: 20-11-2025

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Microfinance for sustainable livelihoods: Assessing income and employment effects in Somalia

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DOI: https://www.doi.org/10.33545/26175754.2025.v8.i2j.634

Abstract
Microfinance has become an essential tool for improving economic resilience and reducing poverty in developing countries. It is also becoming a critical component in Somalia's economic recovery due to its fragile post-conflict economy. The study focuses on how microfinance can be used to improve sustainable livelihoods in Somalia. More specifically, the study examines whether microfinance improves the incomes of those receiving microfinance loans, if microfinance leads to employment opportunities for those receiving microfinance loans and how both of these aspects of microfinance lead to sustainable livelihoods. The study uses thematic analysis of 27 peer reviewed articles, policy documents and sectoral reports published between 2013-2025 to analyze the results of microfinance in Somalia. The study finds that microfinance provides a positive benefit for household income and self-employment, however, there are limitations to microfinance in Somalia including weak institutional capacity, regulatory issues and limited access to rural populations. The study recommends strengthening hybrid microfinance models, promoting digital finance literacy and establishing social outcome measurement frameworks to promote equitable and sustainable development.

Keyword: Microfinance, sustainable livelihoods, Somalia, income generation, employment, financial inclusion, mobile money, social innovation

Introduction
Somalia is a post-conflict country with a fragile economy and a high degree of informality in the economy. According to the World Bank (2023) [23], over 70% of Somalis engage in either subsistence livelihoods or small-scale trade. Access to formal financial services is also very low, but there are many microfinance institutions (MFIs) and mobile money providers operating in the country. Many view microfinance as a method to reduce poverty and create jobs, but little research exists to determine the effectiveness of microfinance in Somalia.
This study is built upon regional evidence from East Africa, as well as evidence from other countries. As Mohamud (2025) [17] notes, hybrid financial models (which combine traditional savings groups with mobile platforms) have generated social innovation and increased financial inclusion in the region. The study seeks to provide systematic evidence regarding the ways in which microfinance generates sustainable livelihoods in Somalia, through the lens of income and employment generation.

General Objective
To evaluate the contribution of microfinance to generating sustainable livelihoods in Somalia, with emphasis on generating income, creating employment and the factors affecting successful outcomes.

Specific Objectives
1. To determine the impact of microfinance on the income levels and stability of microfinance recipients.
2. To determine the ability of microfinance to generate employment through self-employment and enterprise-based employment.
3. To examine factors affecting the sustainability and success of microfinance-based micro-enterprises, taking into account differences by gender and contextual variations.

2. Literature Review

2.1 Microfinance and Livelihood Strategies

Research by Banerjee *et al*. (2015) [3] and Buera *et al*. (2022) [8] indicates that microfinance provides individuals and households with a means of asset accumulation, entrepreneurial development and income diversification, especially for women and youth. Ledgerwood (2013) and Yunus & Moingeon (2010) [24] argue that microfinance allows access to credit to populations that do not have access to formal banking services.

In Somalia, while microfinance is still relatively new, there are increasingly structured public-private partnership models and Islamic-compliant microfinance models (Ali *et al*., 2022; Dalmar, 2023) [2, 10].

2.2 Microfinance and Employment Creation

Studies from East Africa indicate that microfinance programs increase micro-enterprise formation and job creation, although typically through self-employment rather than wage-based employment (Byiers *et al*., 2021; Marti & Mair, 2009) [9, 15]. Mohamud (2025) [17] found significant gender-related impacts in financial inclusion outcomes, which align with barriers faced by Somali women in terms of mobile phone ownership and digital financial literacy.

2.3 Sustainability and Social Innovation

The sustainability of microfinance is contingent on institutional governance, product design, and integration of technology (Battilana & Dorado, 2010; Emerald, 2021) [5, 12]. Hybrid community-digital models, as noted by Mohamud (2025) [17], demonstrate both resilience and operational efficiency. Nevertheless, there are constraints to scaling these models sustainably due to lack of effective regulation and consumer protection (Mashariki RPC, 2025; BlueOrchard, 2025) [16, 6].

3. Methodology

3.1 Study Design

This study employed a qualitative library-based methodology, and utilizes Braun & Clarke's (2006) [7] thematic analysis framework and Teddlie & Tashakkori's (2009) [21] mixed-methods foundations. Secondary data were collected from 27 peer-reviewed academic articles, conference papers, government reports, and reports from international development agencies (2013-2025).

3.2 Selection Criteria

Selection criteria for sources included:

- A focus on microfinance and its implications for livelihood, income, and employment;
- Relevance of empirical evidence or case studies to fragile or East African contexts;
- Published since 2013 in peer-reviewed journals or academic outlets.

3.3 Data Analysis

The following themes emerged from the literature review:

- Income and asset accumulation;
- Self-employment and enterprise development;
- Institutional sustainability and innovation.

Data were analyzed using NVivo software and categorized using qualitative coding techniques (e.g., "financial inclusion", "gender impact", "digital platform adoption").

4. Results and Discussion

4.1 Income and Asset Accumulation

Studies reviewed indicated that microfinance provided microfinance recipients with diversified income sources and greater household stability (Banerjee *et al*., 2015; AFI, 2024) [3]. In Somalia, access to micro-loans through Islamic-compliant microfinance schemes allowed small traders to stabilize their income streams during periods of economic instability (Dalmar, 2023) [10]. Hybrid models of microfinance utilizing mobile finance have been found to have the greatest impact on rural clients' capacity to save and invest, as documented by Mohamud (2025) [17].

4.2 Employment Generation

Microfinance has been shown to stimulate self-employment activity in the small commerce, tailoring, and agriculture sectors. Case studies have demonstrated that microfinance recipients create an average of one to three additional jobs per micro-enterprise (European Investment Bank, 2025) [13]. However, the scale of formal employment creation via microfinance has remained low, consistent with Buera *et al*.'s (2022) [8] warning that microfinance's employment impact is often exaggerated where programs lack training and follow-up support for micro-enterprises.

4.3 Gender and Digital Inclusion

Gender continues to play a major role in determining outcome disparities. Women's involvement in microfinance programs has resulted in greater household decision-making authority (United Nations, n.d.), but barriers exist in terms of mobile phone ownership and digital financial literacy (Intel Market Research, 2025; Mashariki RPC, 2025) [14, 16]. Women-headed households consistently exhibit high repayment discipline but limited scalability without complementary assets or markets.

4.4 Institutional and Regulatory Constraints

Regulatory weaknesses and inconsistent oversight impede the effectiveness of Somalia's microfinance sector (World Bank, 2023; BlueOrchard, 2025) [23, 6]. Somalia does not have a comprehensive regulatory framework that integrates MFIs, fintechs, and telecommunications under a single supervisory structure, which contrasts with regulatory frameworks in Kenya and Tanzania. Mohamud's (2025) [17] findings suggest that the unequal availability of digital access could exacerbate inequality.

5. Recommendations

Recommendations include

- Formalization of hybrid microfinance models that utilize a combination of community-based organizations with digital mobile platforms (Mohamud, 2025) [17].
- National-level microfinance monitoring frameworks that focus on metrics for sustainability and inclusion.
- Expansion of financial literacy programs for women, youth, and rural entrepreneurs.
- Promotion of responsible digital lending practices through adequate data protection policies and consumer

protection laws.
- Encouragement of coordination among donors and capacity building of local MFIs through partnerships with regional networks (Byiers *et al*., 2021; AFI, 2024) [9, 1].

6. Conclusion
Microfinance is contributing positively to financial inclusion and income generation in Somalia when combined with community-based and mobile banking models. However, the potential of microfinance to generate sustainable employment and reduce poverty is constrained by institutional weakness, unequal access to microfinance products and limited empirical frameworks for evaluating the impact of microfinance on poverty reduction and employment generation. Therefore, for microfinance to become a robust and sustainable base for livelihoods, it must evolve beyond just providing credit to individuals and families to providing holistic livelihood systems that include training, regulation, and outcome measurement.

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