THE THESIS REPORT

ON

THE Role of Islamic banking Products on Investment in Salaam bank Puntland-Somalia

Submitted to

Prof.Dr.Mostafa Kamal

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Submitted by

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LETTER OF TRANSMITALL

Date: 29th September 2020

TO: Dr.Mostafa Kamal

Professor Department of Business Administration

And Department of Real Estate

Faculty of Business administration

Daffodil International University

<u>Subject: - Submission of Internship Report</u>

Dear Sir,

With due respect, I'm glad to summit my thesis report entitled "**The role of Islamic banking products on investment in Salaam bank Puntland-Somalia**" as a partial fulfillment of Master of Business Administration. It is an immense pleasure to complete this report within due time under your guidance and supervision. While conducting this research all instructions and guidelines were duly followed.

A sincere time was spent and all necessary effort was made to complete this research in a feasible and realistic way, with hope that this report will meet all the requirements and expectations.

Thank you

Yours Sincerely,

………………………….

Mahad Warsame Farah

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MBA Program

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LETTER OF AUTHORIZATION

I hereby declare that this submission is my own work in completion of the program of Master of Business Administration, major in Finance, and that to the best of my knowledge, it's my work and it contains no material previously published by another person nor it has been accepted for the award of any other degree of the university, except where due acknowledgement has been made in the text.

Mahad Warsame Farah

ID No: 193-14-3098

Signature

Date ……………………

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LETTER OF ACCEPTANCE

I am very much pleased to certify that the thesis report entitled "**the role of Islamic banking products on investment in Salaam bank Punland-Somalia"** prepared by **Mahad Warsame Farah** ID No**: 193-14-3098**, Department of Business Administration, Faculty of Business and Entrepreneurship Daffodil International University under my supervision. The data and findings presented in this thesis report seem to be authentic. Thus, the thesis report has been approved for presentation.

I wish him every success in life.

Date………………………………

Signature of the supervisor

30/9/2020

Dr. Mostafa Kamal

Professor, Department of Business Administration and Department of Real Estate

Faculty of Business and entrepreneurship Daffodil International University

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Abstract

The Islamic banking system has been operation since 1960. Islamic banking products and services are available in Islamic banks and Islamic windows operated by conventional banks. However, awareness of Islamic banking products and services has been low. The stability of any economy is dependent on the performance of the financial sector. The financial sector functions as an engine to the economy linking units to deliver goods and services to the people. Islamic banking works on a concept of free interest and it is practiced according to the Sharia Law whose source is from the Quran. This study analyzed the role Islamic banking products and services on investment . A sample of 56 respondents from Salaam bank was selected. Descriptive statistics and a binary logistic model were used to analyze the responses. The results indicated that gender, age, race, and qualification were statistical significant in influencing awareness of consumers. The study found a positive relationship between investment and Islamic banking products which include Murabaha, Mudaraba, Musharakah and Salaam contract had a positive impact on the investment in salaam bank. The study concludes that Islamic banking products leads to improve Islamic investment.

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Chapter One: Introduction

1.1 Background

The concept of the Islamic Banking emerged in the early sixties of the twentieth century to help absorbing the money surplus in the Islamic countries and since then it has remarkably grown especially as it has been accompanied by the development of the Islamic economic thought which is based on the Islamic prohibition of usury. This development entailed revision of the Islamic fiscal structures and this led to the of abandonment of interest system, and taking up the adoption of the principle of the participation in profit and loss, a principle which has been firmly adhered to by the Islamic banks and applied to various operations and bank services.

Being more than fifty years old, the Islamic banking system has become a part of the world banking system. Since the establishment of the first Islamic bank in the early 1960s in Egypt the activity of Islamic banking has been growing steadily throughout the world especially in the 1970s and the 1980s. The birth of contemporary Islamic finance and banking though occurred in the second half of the twentieth century as an extension of Islamic Economics, through the joint efforts of Shariah scholars and bankers. The global growth of Islamic banking was accelerated by the discovery of oil, rise in petrodollars and budget surpluses of the Gulf Cooperation Council (GCC) countries, with the associated increase demand among global Muslims to bank according to their religious beliefs (HABIBA, 2018, p. 27).

The Islamic banking system also witnessed great developments. A major progress was the foundation of The Islamic and Training Institute by The Islamic Development Bank in Jeddah to conduct empirical and theoretical research. The non-interest banking activity has widely spread in many Islamic countries and some European countries. Moreover, some traditional banks started to open branches for Islamic transactions (Traad, 2003). Bahrain and Malaysia are examples of the countries which encourage Islamic banking. The banking systems were converted to noninterest banks in Iran, Pakistan, and Sudan. In addition, western commercial banks began to provide Islamic services through what is known as Islamic windows (M.Al-Fiwwaz, 2011).

Islamic finance is growing within international finance. in its modern form, Islamic banking started with pointing experiment in the early 1960s in Egypt. The Mit-Ghamr Islamic Saving

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Associations(MGISA) mobilized the savings of Muslims investors, providing them with returns that did not transgress the law of the sharia. The MGISA attracted a flurry of deposits, which grew at rate of more than 100 percent per year in the first three years of operation. Later the Pilgrims Fund Corporation(PFC) enabled Malaysian Muslims to save gradually and invest in sharia-compliant instrument, with the purpose of supporting their expenditure during the Hajj period (pilgrimage). In 2012, the PFC had eight million account holders of more than $12 billion. Formally , Islamic banking started in the late 1970s with a handful of institutions and negligible amounts, but it has increasingly grown over the past two decades, with total assets reaching about $2 trillion at end 1014 (Mumtaz Hussian, june 2015).

The establishment of the Islamic Development Bank(ISDF) in 1975 was a watershed moment for Islamic banking, coming just after the establishment of the first major Islamic commercial bank- the Dubai Islamic Bank in the United Arab Emirates. The success of the latter led the establishment of a series of similar banks, including Faisal Islamic Bank (Sudan) and Kuwait Finance House (Kuwait) both in 1977. As early as the late 1970s, steps were taken in Pakistan for making the financial system compliant with sharia principle. The legal framework was then amended in 1980 to allow for the operation of sharia compliant profit-sharing financing companies, and to initiate bank finance through Islamic instruments. Similarly, Iran enacted a new banking law in august 1983 to replace conventional banking with interest-free banking.

Siddiqi (1999) stated that an increasing number of western banks have established subsidiaries and/ or specialist division to offer corporate finance and investment banking service for tapping the deposits of high net worth individuals. The list of theses Western financial institutions includes such well known names as Citigroup, ANZ, Grindlays, JP Morgan, Deutsche Bank, ABN AMRO, Goldman Sachs, Chase Manhattan, NatWest, Societe General and HSBC among others (Thomk, october 2014).

Somalia’s financial system has been destroyed by more than two decades of conflict. In January 1991, all state institutions that provided services and regulated the economy collapsed, including the central bank of Somalia and the entire banking system. The commercial bank liabilities that had survived the 1989 bankruptcy of the only commercial bank in the country disappeared. The country has also been suspended from accessing global financial markets, a situation that

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compromises the leverage of the Traction Federal Government (TFG) in domestic as well as international financial markets. In addition, past circulation of counterfeit currency (by individuals) has led to inflation and hyperinflation and an increasingly dollarized system within the Somalia economy. In December 2006, the Central Bank of Somalia reopened its office in Mogadishu and Baidoa, but it continues to have limited functionality (Somalia, may 2010).

Somalia private banks currently finance many private sector activities in Somalia, providing some basic services and other services such as electricity, telecommunication, domestic water supply and urban waste disposal by using modes of finance such as Murabaha, Musharaka, Mudaraba, Salam and Qarad Hassan. Whether invested of consumer, bank institution have important macroeconomic impact (Adan, 2014).

The theory of Islamic banking is based on the concept that interest is strictly forbidden in Islam, and that Islamic teachings provide the required guidance on which to base the working of banks. The basic principle that has guided all theoretical work on Islamic banking is that although interest is forbidden in Islam, trade and profit is encouraged (Gudarzi Farahani, 2012).

The Organization of Islamic Conference (OIC) defines an Islamic bank as a financial institution whose statutes, rules and procedures expressly state its commitment to the Principles of Islamic Shariah and to the banning of the receipt and payment of interest on any of its operations. Tayyebi (2008) describes Islamic Finance as any Finance that is compliant with the principles of Islamic Law (Thomk, october 2014).

Islamic banking can be simply defined as a banking operation that abides by sharia (Islamic law), under which a key tenet is the prohibition of interest or *riba.* Generally, Islamic banking is understood to mean interest-free banking (Centre, 2009).

There are more than fout types of investments proposed by Islamic banks. It’s possible to distinguish two categories of financing techniques: those that are based on a participatory financing *(Mudhâraba* and *Musharaka)* and those based on an asset (*Murabaha,*), and also there is *Salam*.

1.2 Problem Statements

According to the observations of many studies Islamic banking are significant on investments.

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The problem which is focused in this study is to investigate the role of Islamic bank products on investment in Salaam bank Puntland-Somalia and how to develop the Islamic banks products on investments. This problem will be focused the factors that Salaam banks uses to implement investment, and how the people to satisfy the function that Islamic banks to develop investments.

1.3 Purpose of Statements

The purpose of this study is to determine and describe the role of Islamic banking products on investments in Salaam bank Puntland-Somalia using a cross sectional survey design with view of improving the investment of Salaam bank.

Islamic banks products will be characterized by Musharakah, Mudarabah, Murabahah, and the Salam contracts and how they influence the investment in Salaam bank by establishing the financing program, provide loans that makes the investment activities.

In view of these operation the study will determine and describe the role of Musharakah, Murabahah, Murabaha and Salam contract on investment in Salaam bank.

1.4 Specific Objectives

1. Determine the relationship between Murabaha Financing and investment.
2. Find out the role of Mudaraba on investment in Salaam bank.
3. Determine the effect of Musharakah on investment.
4. Establish the effect of salam contract on investment in Salaam Bank.

1.5 Research Questions

1. How does the murabaha financing effects the investments in Salaam bank.
2. How does the mudaraba effect the investment.
3. What is the relationship between musharakah and investment in Salaam bank.
4. What is the effect of salam contract on investment in Salaam bank.

1.6 Significance of the Study

This significance of this study are to obtain a better understanding of the mode of Islamic banking products and how to contribute the investment in Salaam bank. Also the study will find out the various types of Islamic banking products , Islamic views and wisdoms behind the prohibition of riba usury and how Salaam bank implements the Islamic banking products.

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1.7 Scope of study

The role of Islamic banks products on investment in Salaam Bank Puntland-Somalia will conduct between June 2020 and September 2020. Through cross sectional sample survey design. The will conducted using a sample of 56 from 65 of Somali residents including managers, employers, with data being collected by researcher using questionnaires and document analysis techniques.

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Chapter Two: Literature Review

2.0 Introduction

This chapter discusses the literature related to Islamic banking products and its effect on investment in Salaam Bank Puntland Somalia. It particularly focuses on Murabaha, Mudarabah, Musharakah and Salam contract and how they affect investment in Salaam Bank.

2.1 Murabaha and investment in Salaam Bank.

Murabaha is the simplest Islamic banking instrument and is a widely used product. Islam prohibits charging fixed interest on money, but permits charging fixed profits on sale of goods. Islamic banks therefore use a sale based transaction-Murabaha instead of a term loan for financing. Murabaha is a sales contract where prof is made by selling at a cost-plus basis. It is an agreement where the bank purchases a specified item at the request of the customer, adds a pre-agreed profit to it and sells I to them at the marked-up price.

The majority of Islamic banks and financial institutions use murabaha as an Islamic financing process, and the majority of its financing transactions are based on murabaha. This is why, in today's economic circles, this world has been adopted as a tool for banking, although the original meaning of murabaha si different from this assumption (Usmani, 1998).

Murabaha is a Shariah-compliant instrument since the bank first obtains the asset for resale at profit along with the risk related with purchase and resale, so an asset is sold for money and the transaction is not an exchange of money for money.

2.1.1 Concept of Murabaha

Murbahah is driven from *ribh* which means gain, profit or addition. In English this world is often translated as mark up or cost-plus financing. In murabahah, a seller has to reveal his cost and the contract takes place at an agreed margin of profit. This contract was practiced in pre-Islamic times.

Murabaha is the purchase and sell with the added value of the negotiated price at the original price. Murabaha financing is still the dominant financing for Islamic banking in the world, despite a lot of criticism leveled at the Islamic banking in problem determination of the profit margin. Since the murabaha financing product is close to traditional bank's flat interest loan financing system (Husaeni, 2016). Murabaha is also called markup cost and the most popular

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Murabaha product is deferred installment payment or Bai Bithaman Ajil. Murabaha sale may be divided into two types: Ordinary Murabaha selling without promise to buy and Murabaha sale with the promise to buy and legally enforced upon owning and possessing the commodity. The latter is used by the bank normally. In Murabaha sale, the buyer of asset will determine his or her needs to bank. The bank will buy the asset from the owner of the asset, and the bank could sell the asset to the purchaser after taking ownership and possession. In that case, before delivery, the bank must bear the risk and liability for the defect and the possibility of return of the goods.
Example: **A** want to buy a house from **B** but do not have cash to settle the whole amount of $50,000**. A** goes to the bank and explain his need of having the house. The bank will buy a house from **B** at the price of $50,000 and then sell the house to **A** at a fixed selling price of $65,000 to be paid in installment for 5 years. The selling price will be divided to 60 equal installments of $1083.33 every month for the 5 years period.

However this Murabaha practice has raised a never-ending controversial debate. Conceptual it is a valid sale as long it does not deprive the society from it exorbitant profit taking. Yusof Qardawi mentioned in his book entitled The Lawful and Prohibited in Islam, " Islam does not prohibit any trade except those which involve injustice, cheating, making exorbitant profits, or the promotion of something which is *haram"* (Qardawi, 1960).
The Murabaha users' argument does not against the buying or selling rule but probably derived from dissatisfaction of the high selling price of the bank's properties. The house's selling price is usually calculated with the time value of the money format or future value formula so that banks can cover their funds costs. The root cause is not the idea but the essence of the money that we use in order to reduce in value and thus the selling price of the house for 5 years installment payment is more from the actual price bough by the bank (Dali, 1999).

2.1.2 Murabaha as a mode of financing

Originally, murabahah is a particular type of sale and not a mode of financing. The ideal mode of financing according to Shariah is mudarabah or musharakah. However, in the perspective of the current economic set up, there are certain practical difficulties in using mudarabah and musharakah instruments in some areas of financing. Therefore, the contemporary Shariah experts have allowed, subject to certain conditions, the use of the murabahah on deferred payment basis

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as a mode of financing. But there are two essential points which must be fully understood in this respect:

1. It should never be overlooked that, originally, murabahah is not a mode of financing. It is only a device to escape from "interest" and not an ideal instrument for carrying out the real economic objectives of Islam. Therefore, this instrument should be used as a transitory step taken in the process of the Islamization of the economy, and its use should be restricted only to those cases where mudarabah or musharakah are not practicable.

2. The second important point is that the murabahah transaction does not come into existence by merely replacing the word of "interest" by the words of "profit" or "mark-up". Actually, murabahah as a mode of finance, has been allowed by the Shariah scholars with some conditions. Unless these conditions are fully observed, murabahah is not permissible. In fact, it is the observance of these conditions which can draw a clear line of distinction between an interest-bearing loan and a transaction of murabahah. If these conditions are neglected, the transaction becomes invalid according to Shariah (Khan, 2006).

Murabaha is available for financing local purchase or import of capital goods, consumer goods or raw material. Under the murabaha agreement, the client provides the bank with the specifications of goods. when the bank and the client have agreed on the terms of the deal, the bank purchases the goods from a third party, sells them to the client and delivers them physically or delivers their documents of title to the client on a deferred payment basis for their cost, plus its profit, which was mutually agreed. The bank has to give the client the breakdown of its cost along with expenses related to the transaction.

The profit is a certain agreed amount, not worked out on a combination, for on a combination of period and volume of funds involved. It can, however, differ according to the period alone, for example, If the payment is made in 3 months, the profit will be so much and if the payment is made in 6 months the profit will be so much, not necessarily double the amount of 3 months profit.

The bank is responsible for the goods until the client takes possession of them, and thus the bank undertakes a risk. To safeguard against subsequent rejection of the goods by the client, the murabaha contract should have a clause that the client will buy the goods on an “as is where is” basis. Moreover, when the client has approved the terms and conditions of the supply contract,

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the bank should assign to the client all its rights relating to warrantees against the supplier. The bank also tries to minimize the gap between its purchase of the goods and their sale to the client.

2.1.3 Basic features of Murabaha financing

1. Murabahah is not a loan given on interest. It is the sale of a commodity for a deferred price which includes an agreed profit added to the cost.
2. Murabaha from an Islamic bank is not a loan in exchange for interest payment as in a conventional bank, but the sale of a good or service. As such, Murabaha needs to fulfil the Shariah requirements of a valid sale – that is, the item of sale must exist at the time of the sale and be owned by and in the physical or constructive possession of the seller at the time of the sale (HABIB, 2018).
3. Murabahah cannot be used as a mode of financing except where the client needs funds to actually purchase some commodities. For example, if he wants funds to purchase cotton as a raw material for his ginning factory, the Bank can sell him the cotton on the basis of murabahah. But where the funds are required for some other purposes, like paying the price of commodities already purchased by him, or the bills of electricity or other utilities or for paying the salaries of his staff, murabahah cannot be effected, because murabahah requires a real sale of some commodities, and not merely advancing a loan.
4. The best way for murabahah, according to Shari'ah, is that the financier himself purchases the commodity and keeps it in his own possession, or purchases the commodity through a third person appointed by him as agent, before he sells it to the customer. However, in exceptional cases, where direct purchase from the supplier is not practicable for some reason, it is also allowed that he makes the customer himself his agent to buy the commodity on his behalf. In this case the client first purchases the commodity on behalf of his financier and takes its possession as such. Thereafter, he purchases the commodity from the financier for a deferred price.

   His possession over the commodity in the first instance is in the capacity of an agent of his financier. In this capacity he is only a trustee, while the ownership vests in the financier and the risk of the commodity is also borne by him as a logical consequence of the ownership. But when the client purchases the commodity from his financier, the ownership, as well as the risk, is transferred to the client.

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5. The subject of sale must be specifically known and identified to the buyer. The subject of sale may be identified either by pointation or by detailed specification which can distinguish it from other things not sold.
6. The subject of sale should not be a thing which is not used except for a haram purpose, like pork, wine etc.
7. Murabaha is Shariah compliant because the bank needs to acquire the ownership and physical or constructive possession of the asset, thus assuming that all risks associated with it before reselling to the client; in contrast, the conventional bank simply lends the money to the client to acquire the asset without taking any risk related to the asset.
8. The delivery of the sold commodity to the buyer must be certain and should not depend on a contingency or chance.
9. Bank may require the borrower to provide collateral which can be held.
10. If the customer has been declared bankrupt and failed to complete debt, bank had to postpone the bill until it becomes able to return, or by agreement (Shofawati, 2014).
11. In the case of default by the buyer in the payment of price at the due date, the price cannot be increased. However, if he has undertaken, in the agreement to pay an amount for a charitable purpose, he shall be liable to pay the amount undertaken by him. But the amount so recovered from the buyer shall not form part of the income of the seller / the financier. He is bound to spend it for a charitable purpose on behalf of the buyer (Usmani, 1998) .

2.2 Mudaraba and investment in Salaam Bank

Trustee partnership based on *mudaraba* is a mode of financing through which the bank provides capital finance for a specific venture indicated by the customer. The bank, called *rabb-al-mal* is the owner of the capital and the customer-entrepreneur, called *mudarib*, is responsible for the management of the business and provides professional, managerial and technical expertise for initiating and operating the business enterprise or project. Profit is shared according to a pre-agreed ratio. Losses if any, are entirely absorbed by the capital provider – the bank. *Mudaraba* may be of two types – restricted or unrestricted. In a restricted *mudaraba* (*mudaraba* al-*muqayyada*) the bank or the financier may specify a particular business in which investments

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may be undertaken. *Mudaraba* may also be an unrestricted one (*mudaraba al-mutlaqa*); in which case the *mudarib* may invest the capital provided in any business he deems fit (obiodullah, 2005) The term Mudarabah is derived from the expression 'making a journey' and it is called this because the agent (Mudarib) is entitled to the profit by virtue of his effort and work. And he is the investor's partner in the profit and in the capital used on the journey and in its dispositions. The people of Madina call this contract Muqaradah, and that is based on a tradition concerning entrusted funds to a man in the form of a Maqarada. This is derived from al-Qard, which signifies cutting; for, in this contract, the investor cuts off the disposition of a sum of money from himself and transfers its disposition to the agent. It is therefore designated accordingly. We, however, have preferred the first term (Mudarabah) because it corresponds to that which is found in the book of Almighty Allah. He said: 'while others travel in the land (yadribuna fil-ard) in search of Allah's bounty,' that is to say, travel for the purposes of trade (Ayub, 2007).

The concept of the mudharabah contract also made a good sense. People need money, and they need to perform work or make goods for money, and they cannot engage in that business except by obtaining money to start it. After all, money grows in a given society through circulation and trade and investment. In view of John W. Livingston (1971), Ibn al Qayyim said that, the mudharib is a trustee, an employee, a deputy and a partner. He is a trustee when he takes the money; a deputy when he uses it, an employee in the work that he executes, and a partner in the profit. Hence, for mudharabah to be valid in Islamic transaction, the share of the worker should be named (Ghafar, 2011)

2.2.1 Mudarabah as a mode of Financing

Mudarabah is a kind of partnership. Both parties contribute in the profit that is going to be generated by the financed activity. The parties are free to agree on the ratio of profit distribution (70% - 30% or 50% - 50% or any other). However, unless they agree at the start of the contract, the latter is, from Shari'ah point of view void. Furthermore, it is a Shari'ah requirement in mudarabah that all of the capital has to be paid at the signing of the contract. It is not allowed to pay it later or on installments basis. Rub-ul-mal can impose any (reasonable) instructions and conditions on the agent, if they are acceptable to the latter they become part of that contract. Once operation starts, the financier has no right to interfere in the day to day business. If agent fails to follow the instructions and satisfy the conditions, then he is liable for loss of capital. The

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mudarib don't guarantee capital nor profit to the financier. Rather he or promises good conducted honesty. This is the source of moral hazard and adverse selection in mudarabah.

Profits are any amount in excess of capital. It is therefore, imperative to liquidate the Mudarabah before declaring any profit. In recent years, many Shari'ah scholars have accepted what in called constructive liquidation constructive liquidation. Simply means that accounting procedures are applied to decide the profit and loss status of the operation. This liquidation process can be done periodically using accounting procedures and based on the outcome profit (loss) can be declared every quarter or year.

The agent in Mudarabah is entitled to nothing but his share of profits. If he (or the financier) receives any income before liquidation, it is always subject to adjustment when financial results are declared. Both parties are required to avoid any conditions in the contract that can fade away the particular nature of the mudarabah being a "company in profit". For example, if one requested that he gets the first $ 500.00 of profits and the rest is for his partner then the contract is void. This is because it is quite possible that the whole profit will only be $ 500.00.

Before the advent of Islam, Mudarabah was the most common mode of finance in Makkah. The Makkan were the foremost traders in their area of the world in the 7th century, bringing goods from India and Yemen and selling to the Roman Empire. To finance this international commercial project, the majority of the merchants of Makkah presented themselves to the rest of the community as Mudaribs (agents), collecting Monies from men, women...etc. who become financiers.

Contemporary scholars were able to develop the Mudarabah contract to suit modern needs. In Pakistan, for example, a special Mudarabah law has been introduced which allows the floating of negotiable Mudarabah Certificates. An attempt to introduce a similar scheme was tried in Jordan, and many Islamic banks are trying to go into special Mudarabah finance with major clients, where the problem of moral hazards is less severe.

The *mudaraba* principle is applicable to a range of situations, from a simple local twoperson partnership to a multiparty international corporation. A shareholder company works essentially on the *mudaraba* principle. But the participatory financing scheme envisaged in this article aims at the middle section of this range. It brings in the intermediary, and provides the investors with a

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unit trust type of investment opportunity. The scheme is ideally suited to medium scale *new* enterprises. However, it is possible to modify it slightly and bring in some of the *running businesses* too into the participatory financing system. This will help expedite bringing about the even distribution mentioned earlier.

In establishing the new institution of *mudaraba*-based investment and finance, using the participatory financing scheme as described above, it is preferable to start with medium size running businesses. This will provide a stable base for the new institution to test the theory and to gain experience (Gafoor, 2001).

2.3 Musharakah and investment in Salaam Bank

The literary meaning of Musharakah is “sharing”. The root of term” musharakah” in Arabic comes from the word “shirkah”, which means being partner.

Under Islamic jurisprudence, Musharakah means “a joint enterprise formed for conducting some business in which all partners share the profit according to a specific ratio while the loss is shared according to the ratio of the contribution”. It is an ideal alternative for the interest based financing with far reaching effects on both the production and distribution of wealth in the economy. The connotation of this term is limited than the term “shirkah”, more commonly used in the jurisprudence. For the purpose of clarity in the basic concepts, it is pertinent at the outset to explain the meaning of each term, as distinguished from the other. “Shirkah” means “Sharing” in the terminology of Islamic Fiqh (banks).

Under this mode of financing, both bank and client contribute capital and agree to a profit-sharing ratio. “Capital” does not necessarily refer to cash; it can also be capital in kind. Thus, an Islamic bank could provide cash capital while the client could use its tangible asset as capital in the partnership. The bank as one of the partners has the right to make strategic decisions and manage the business. The bank could also choose to be a sleeping partner. Based on the performance of the business, both partners would share the profit and losses (Centre, 2009).

Musharakah is a relationship between two or more parties, each of whom contributes capital to a business or business activity. They contract to share profits based on a profit-sharing ratio (PSR). Losses are borne according to their capital contribution. Musharakah is often used in trade

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finance, project finance, working capital finance and the purchase of real estate. All providers of capital are entitled to participate in management, but not necessarily required to do so.

The concept is a highly flexible tool for organizing business interests between business partners. Classically, multiple partnerships were crafted with variable terms and conditions as a means of venture management that had more in common with merchant banking, and synthesized lending but with greater risk and reward factors for the bank. There are generally two forms of Musharakah applied in Islamic commerce: *shirkat al milk* and *shirkat al aqd*. There are also credit-driven derivatives of the concept, such as the declining balance partnership. Although the modern applications of Musharakah are typically limited liability entities, the traditional concept is of an unlimited liability business venture.

Shirkat al milk is a partnership of two or more owners of a property held in common, structured in a way as to make it impossible to know which partner owns which part of an asset. This form of partnership may be established without a specific contract, as in the case of inherited property. The primary limitation is that the object of the partnership, the underlying property, is not divided or unitized. This creates restrictions for use or specific division of the property. Shirkat al aqd, however, is a mutual partnership by contract. This form of

Musharakah is widely used in modern Islamic banking. Although capital contributions may be in kind or by services provided, they are typically cash and valued at an agreed par value which is independently verifiable. There is no obligation to value the disparate components of capital equally.

he basic rules for all methods of Musharakah stipulate that the capital is quantified and specific, and the PSR is agreed in advance. Although profit cannot be structured to give a guaranteed rate or yield to one party, the investor and investee may agree to set the PSR on the basis

of gross sales as opposed to net income.19 Indeed, if the PSR generated a certain return to investors, they are permitted to give a bonus to the client if the client is the manager. This reflects the principle of partnership in sharia that allows partners to choose not to manage the Musharakah. They may hire an independent third party or one of the partners, most likely the

client, to manage the project or activity. These contractual elements allow the Musharakah method to replicate the credit risk environment with which banks and customers are often most comfortable.

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In typical examples of Musharakah arrangements, there is a presumption of an indefinite relationship, serving a similar purpose to equity in a modern corporation. A classical stipulation is that a partnership may not be dissolved without the knowledge of all partners. An equivalent to this in a modern corporation would be a notice of bankruptcy (Centre, 2009).

The basic element of shirkatulmilk is the mixing of ownership, either mandatorily or by choice. Two or more people are joint owner of one thing. It is further subdivided into two categories: optional and compulsive. Optional partnership by ownership is explained in the words: "where two persons make a joint purchase of one specific article or where it is presented to them as a gift, and they accept of it; or where it is left to them, jointly, by request and they accept of it". Basically, it is not for sharing of profit. The co-owners may use the property jointly or individually. Compulsive partnership is where the capital or goods of two people become united without their act and it is difficult or impossible to distinguished between them, or where two people inherit one property.

In other forms of partnership, a partner is treated as an agent to the other partner's share, but in partnership by ownership, partners (co-owners) are not agents of each other; here, a partner is a stranger and in the absence of the other partner, he has no right to use the absent partner's property, nor can he be responsible for any liability arising out of the latter's share. He cannot use even his own share if it is detrimental to the interest of the other partner's s (Ayub, Understanding islamic finance, 2007) hare. It is, however, lawful for one partner to sell his own share to the other partner, and he may also sell his share to others, without his partner's consent, except only is cases of association or a mixture of property, for in both these instances, one partner cannot lawfully sell the share of the other to a third person without his partner's permission. If joint property is used by one partner, the owner may demand rental for his part of the property from the benefiting partner. The distribution of the revenue of shirkatulmilk is always subject to the proportion of ownership.

Shirkat-ul-'Aqd: This is the second type of Shirkah which means "a partnership effected by a mutual contract". For the purpose of brevity it may also be translated as "joint commercial enterprise."

Shirkat-ul-'aqd is further divided into three kinds:

(i) Shirkat-ul-Amwal where all the partners invest some capital into a commercial enterprise.

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(ii) Shirkat-ul-A'mal where all the partners jointly undertake to render some services for their customers, and the fee charged from them is distributed among them according to an agreed ratio. For example, if two persons agree to undertake tailoring services for their customers on the condition that the wages so earned will go to a joint pool which shall be distributed between them irrespective of the size of work each partner has actually done, this partnership will be a shirkat-ul-a'mal which is also called Shirkat-ut-taqabbul or Shirkat-us-sana'i' or Shirkat-ul-abdan.

(iii) The third kind of Shirkat-ul-'aqd is Shirkat-ul-wujooh. Here the partners have no investment at all. All they do is that they purchase the commodities on a deferred price and sell them at spot. The profit so earned is distributed between them at an agreed ratio.

All these modes of "Sharing" or partnership are termed as "shirkah" in the terminology of Islamic Fiqh, while the term "musharakah" is not found in the books of Fiqh. This term (i.e. musharakah) has been introduced recently by those who have written on the subject of Islamic modes of financing and it is normally restricted to a particular type of "Shirkah", that is, the Shirkat-ul-amwal, where two or more persons invest some of their capital in a joint commercial venture. However, sometimes it includes Shirkat-ul-a'mal also where partnership takes place in the business of services (Usmani, 1998) .

2.3.1 Diminishing Musharakah

The participatory contracts that may be more suitable for financing of fixed assets and present-day ongoing projects, particularly for financial intermediaries, can be based on the concept of "Diminishing Musharakah" (DM). in the Diminishing Musharakah contract, a party, after participation in ownership of any business/project, can liquidity his investment from the asset or the ongoing business. The jurists are unanimous on the permissibility of the arrangement. DM contracts contain a sale provision, according to which, one partner makes a promise to sell his part of ownership to the other party periodically.

Diminishing Musharakah as a financing technique, however, is a new type of contract, suggested by contemporary jurists keeping in mind the problem perceived while discussing the traditional Musharakah principles in the broader economic perspective. This involves the Musha'a, which means undivided ownership of the asset by the partners. All co-owners are owners of each and every part of the joint property on a pro rata basis an one partner cannot claim a specific part of

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the property leaving other part for other partners. Further, it is allowed to lease Musha'a to another joint owner.

A DM arrangement may consist of two or three subcontracts, i.e. in the case of assets that could render any service, and hence they could be leased, there would be three subcontracts: partnership by ownership between two or more persons, leasing by one partner its share in the asset to the other partner(s), selling by one partner its share to the other partner(s); and in the case of partnership in trade of assets that do not involve leasing, it would involve two subcontracts: partnership and sale. This factually becomes a general partnership and all rules of Shirkahal'Inan are applicable to it. One major point to be taken into consideration in this type of DM arrangement is that one partner cannot sell his part to the other partner at a pre-agreed price.

All, two or three subcontracts are considered permissible by the jurists, particularly when the sale/lease contracts are stipulated among the partners, i.e. assets are sold/leased to the partners. Thus, the combination of Shirkah and lease contracts does not create any Shar¯ı´ahrelated problem. Sale of a part by a partner to the other partner should be separate and independent from the Shirkah or leasing arrangement.

Diminishing Musharakah for financing of fixed assets like houses, motor vehicles, machinery, etc. In particular, it is suitable for financing the purchase, construction and renovation of houses and commercial buildings. It may also involve "sale and leaseback" arrangements in cases where the property is already in the ownership of the customer (Ayub, Understanding islamic finance , 2007).

2.3.2 Musharakah as a mode of Financing

Musharakah: particularly suitable for consignment-based trade transactions,

for short-, medium- and long-term project financing, import financing, preshipment export financing and working capital financing. Project financing can be conducted under Musharakah through the issuance of Sukuk.

If we look at the percentage of Musharakah financing of the Islamic banking industry, it is not very encouraging. Although it is increasing with every passing year but the increase is negligible. In 2006 the total financing of the Islamic banking industry stood at Rs. 65.7 billion, however, musharakah financing out of this total was only Rs. 0.533 billion which constitute only 0.8

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percentage of the total gross financing of Islamic banking sector in Pakistan (Muhammad Farooq, 2013).

2.4 Salam Contract and investment in Salaam bank

Bay' al-salam is a sale of an object, which is not available at the time of the conclusion of the sale, but will be delivered in the future on a fixed future date. The price is, however, to be paid immediately during the session of the contract. In other words, the transaction is called *bay' al-salam*, when it is a sale for an agreed price with immediate payment for a determinate thing, to be delivered in the future on a fixed date (Nawawi, 1999).

In other words, *salam* or *salaf* is the sale of a deferred item in exchange for an immediate (forward) price. It is the sale of a liability whose characteristics are described in exchange for a price or capital-sum paid in advance. The Maliki school defined *bay' alsalam* as a sale in which the capital-sum (price) is paid in advance and the object of sale is deferred to a specified term. Whereas, the Shafi'i and Hanbali school defined the forward contract as a contract over described merchandise sold as a deferred liability on one party, in exchange for a price that is received during the contract session.

Bay' al-salam was allowed by the Holy Prophet Muhammad s.a.w. subject to certain conditions. The basic purpose of this sale was to meet the needs of small farmers who needed money to grow their crops and to feed their families up to the time of harvest. After the prohibition of *riba*, they could not take usurious loans. Therefore, it was allowed for them to sell the agricultural products in advance (Muhammad, 2007).

Salam was beneficial to the seller, because he received the price in advance, and it was beneficial to the buyer also, because normally, the price in salam used to be lower than the price in spot sales. The permissibility of salam was an exception to the general rule that prohibits the forward sales, and therefore, it was subjected to some strict conditions.

This mode of financing can be used by the modern banks and financial institutions especially to finance the agricultural sector.

2.4.1 Salam as a mode of financing

It is evident from the foregoing discussion that salam was allowed by Shari'ah to fulfill the needs of farmers and traders. Therefore, it is basically a mode of financing for small farmers and traders. This mode of financing can be used by the modern banks and financial institutions,

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especially to finance the agricultural sector. As pointed out earlier, the price in salam may be fixed at a lower rate than the price of those commodities delivered at spot. In this way, the difference between the two prices may be a valid profit for the banks or financial institutions. In order to ensure that the seller shall deliver the commodity on the agreed date, they can also ask him to furnish a security, which may be in the form of a guarantee or in the form of mortgage or hypothecation.11 In the case of default in delivery, the guarantor may be asked to deliver the same commodity, and if there is a mortgage, the buyer / the financier can sell the mortgaged property and the sale proceeds can be used either to realize the required commodity by purchasing it from the market, or to recover the price advanced by him.

The only problem in salam which may agitate the modern banks and financial institutions is that they will receive certain commodities from their clients, and will not receive money. Being conversant with dealing in money only, it seems to be cumbersome for them to receive different commodities from different clients and to sell them in the market. They cannot sell those commodities before they are actually delivered to them, because it is prohibited in Shari‘ah.

But whenever we talk about the Islamic modes of financing, one basic point should never be ignored. The point is that the concept of the financial institutions dealing in money only is foreign to Islamic Shari‘ah. If these institutions want to earn a halal profit, they shall have to deal in commodities in one way or the other, because no profit is allowed in Shari‘ah on advancing loans only. Therefore, the establishment of an Islamic economy requires a basic change in the approach and in the outlook of the financial institutions. They shall have to establish a special cell for dealing in commodities. If such a special cell is established, it should not be difficult to purchase commodities through salam and to sell them in the spot markets.

However, there are two other ways of benefiting from the contract of salam.

Firstly, after purchasing a commodity by way of salam, the financial institutions may sell it through a parallel contract of salam for the same date of delivery. The period of salam in the second (parallel) transaction being shorter, the price may be a little higher than the price of the first transaction, and the difference between the two prices shall be the profit earned by the institution. The shorter the period of salam, the higher the price, and the greater the profit. In this way the institutions may manage their short term financing portfolios.

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Secondly, if a parallel contract of salam is not feasible for one reason or another, they can obtain a promise to purchase from a third party. This promise should be unilateral from the expected buyer. Being merely a promise, and not the actual sale, their buyers will not have to pay the price in advance. Therefore, a higher price may be fixed and as soon as the commodity is received by the institution, it will be sold to the third party at a pre-agreed price, according to the terms of the promise.

A third option is sometimes proposed that, at the date of delivery, the commodity is sold back to the seller at a higher price. But this suggestion is not in line with the dictates of Shari‘ah. It is never permitted by the Shari‘ah that the purchased commodity is sold back to the seller before the buyer takes its delivery, and if it is done at a higher price it will be tantamount to riba which is totally prohibited. Even if it is sold back to the seller after taking delivery from him, it cannot be pre-arranged at the time of original sale. Therefore, this proposal is not acceptable at all.

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Chapter Three: Research Methodology

3.0 Introduction

This section presents the strategy and the methodology of the study, in this part the researcher discusses research design, research population, sample size, sampling procedure, research instruments, research quality including reliability and validity, data analysis, ethical consideration and finally limitations of the study. The purpose of this research is to examine the role of Islamic banking product on investment.

3.1 Research Design

This study will employ correlation research design; tests for statistical relationship between variables, by stander deviation, person's correlation, t-test, f-test and x^2 and etc. the researcher begins with the idea that there might be relationship Islamic banking product and investment, in order to investigate the relationship between Islamic banking products and investment of Somalia. The researcher employ both quantitative and qualitative research methods.

3.2 Population and Sampling

3.2.1 Target Population

This study target 65 employees and manager's in Salaam bank specially Bosaso which the commercial Centre of Puntland since the collapsed central government.

3.2.2 Simple Size

Sampling is worried about the decision of a subgroup of people from the objective populace so as to empower the estimation of the qualities of the whole populace (Singh, 2014). The example size was determined utilizing the "example size deciding for explore action table" by (Krejcie, 1970). In assessing the example size, a 5 percent safety buffer (certainty interim) and 95 percent certainty level was utilized. The example size for the investigation in this way is 52 respondents secretly chose from Target place in Bosaso.

N = Number of population

n= Sample size

e= Margin of error

Therefore in the following formula will be 95% confidence level of my research.

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n=N/ (1+N*e^2)

n=65/1+65(0.05) ^2=56

The sample will consist of 56 subject selected from the population of 65 beneficiaries. The size was respondents will be distributed as employees, managers, and others in Salama Islamic banking.

3.3 Sample Procedure

The study used purposively sampling and simple random sampling. Purposive sampling the researcher decides who should be including in the sample, it is used to collect focused information, typical and useful cases are selected. In this study it will be used to focus on particular beneficiaries with the characteristics recognized by the researcher such as nationality, gender and experience to life. It is preferred because it selects typical cased and therefore it saves time and money.

3.4 Research Instrument

The researcher was used questionnaire for gathering as the principle information it is the most fitting technique The researcher was used questionnaire as the principle device for gathering information in this examination the specialist favors this strategy since it is the most fitting technique.

3.5 Research Quality

The researcher will control quality by insuring high reliability and high validity.

3.5.1 Reliability

Validity determines whether the research truly measures that which it was intended to measure or how truthful the research results are. In other words, does the research instrument allow you to hit "the bull's eye" of your research object? Researchers generally determine validity by asking a series of questions, and will often look for the answers in the research of others (Joppe, 2000)**.** The purpose was to access the worthiness of the instruments to generate correct data so that items discovered to be in appropriate in answering, the research questions and attaining the

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research objectives were modified to improve the quality and the appropriateness of the instruments and others discarded.

3.5.2 Validity

(Joppe, 2000) defines reliability as the extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of the study can be reproduced under a similar methodology, then the research instrument is considered to be reliable. The reliability of the research instruments was established by the researcher before analysis and consequent presentation. This was achieved by comparing the pilot and final data collected. The reliability of the research will be controlled through retesting.

3.6 Method of Data Analysis

In this examination, graphic and econometric strategies for information investigation were utilized to clarify the connection between the Dependent variable and free factor. In the spellbinding investigation, organization and cross arrangement, frequencies, rates, implies, standard deviations, least and most extreme factual methods was utilized for the quantitative investigation. What's more, since both quantitative and subjective methodologies have been joined, logical technique for investigation was utilized. Aside from the clear part, econometric examination were utilized. The reactions were coded and went into SPSS variant 21.0 programming program for factual examination.

3.7 Ethical Considerations

I. Researcher ensued confidentiality and privacy of participant’s information
II. The researcher ensured that participants were not coerced but participated willingly.
III. The researcher also ensured that no form of injury physical or mental affected the participants

3.8 Limitations of the Study

The major limitations of this study are, First respondents may not reply the questions frankly; secondly the questionnaire was structure by the researchers so the respondents can be difficult to understand easily, finally extraneous variable was beyond the researcher`s control such as respondents` honesty, personal biases are also other limitation.

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CHAPTER FOUR
Data Presentation, Analysis and Interpretation

4.0 introduction

This study investigated the role of Islamic banking products on Investment. The data has been analyzed by using statistical package for social science SPSS version 20 as data analyzed tool. This chapter presents the results of the analysis in tables that containing the type of responses, its frequencies and percentages.

This chapter highlights on data analysis, presentation and interpretation. The data analysis and interpretation based on research questions as well as research objectives.

Then data representation and analysis under this heading was presented using the compete research data found from the target population, major findings were presented in chapter five.

4.1 Demographic Data

4.1.1 Tables and figures

This part presents the background information of the respondents who participated in this Study; the purpose of this background information is to find out the characteristics of the respondents. Furthermore, the respondents have also given the promise that all the data they provided is used only for academic purpose research and the identities of the respondents will be confidential. In total 56 respondents were collected this questionnaire selected from the different departments of Salaam bank Puntland Somalia. The shape of the questionnaire in the demographic section is looked upon in terms of Gender, Age, level of education, marital status and occupation.

Table 4.1.1 Gender of the respondent

Description	Frequency	Percentage
Male	38	68%
Female	18	32%
Total	56	100%

Sources: Primary data 2020

Figure 4.1.1 Gender of the respondents:

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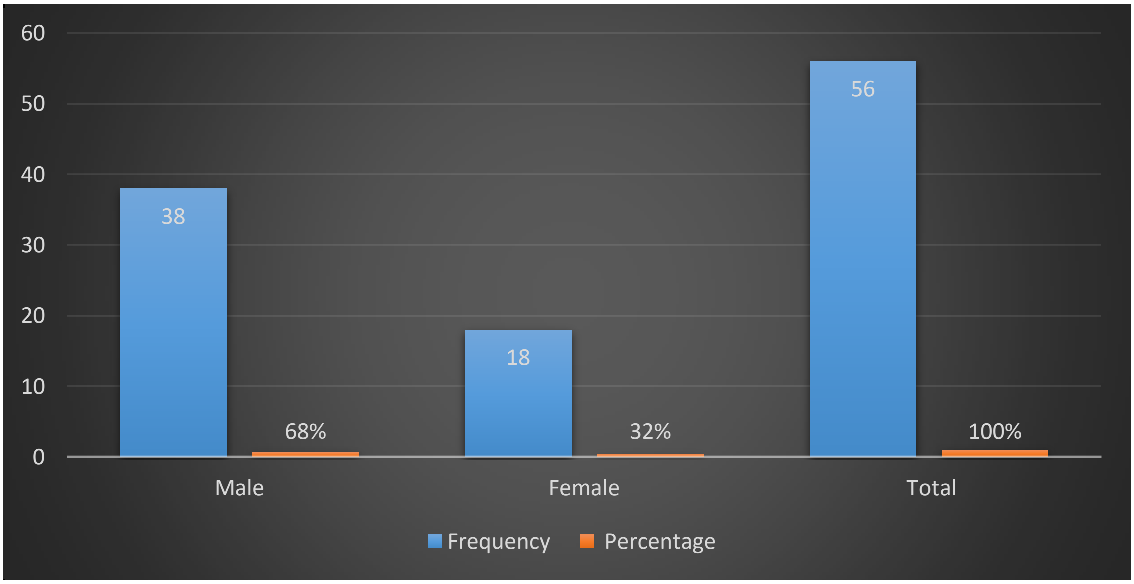

Source: Primary Data 2020

In the table 4.1.1 and figure 4.1.1 above shows the gender of the research respondents, and it is clear that about 68% of the respondents were male, and the remaining of the respondent which is the female respondents was about 32%. This shows that the most active members in the research and the field of banks were male.

Table 4.1.2: Age of respondents

Description	Frequency	Percentage
20-30 years	26	46%
31 - 40 years	15	27%
41 - 50 years	11	20%
above 51years	4	7%
Total	56	100%

Source: Primary Data 2020

Figure 4.1.2: Age of the respondent

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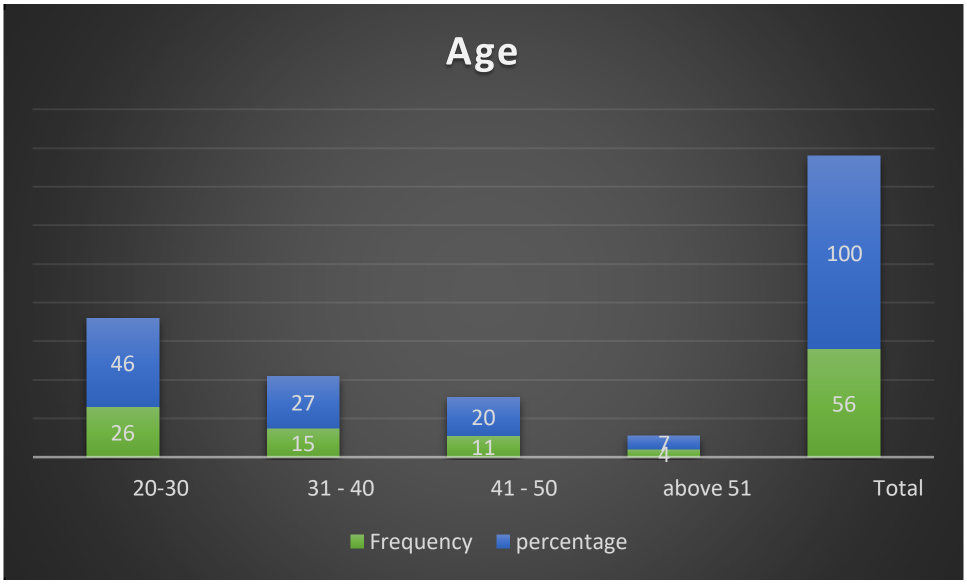

Source: Primary Data 2020

The table and figure 4.1.2 shows that 46% of the respondent's Age were 20-30 years which is highest number while 27% of the respondents were the age of 31-40 years, at the age of 41-50 there were 22.8% of the respondents and the age of 51- above there were 7% of the respondents.

Table 4.1.3: Educational Level of respondents

Description	Frequency	Percent
secondary level	8	14%
bachelor degree	24	43%
Master	17	30%
PhD holder	7	13%
Total	56	100%

Sources: Primary data 2020

Figure 4.1.3: Educational level of respondents

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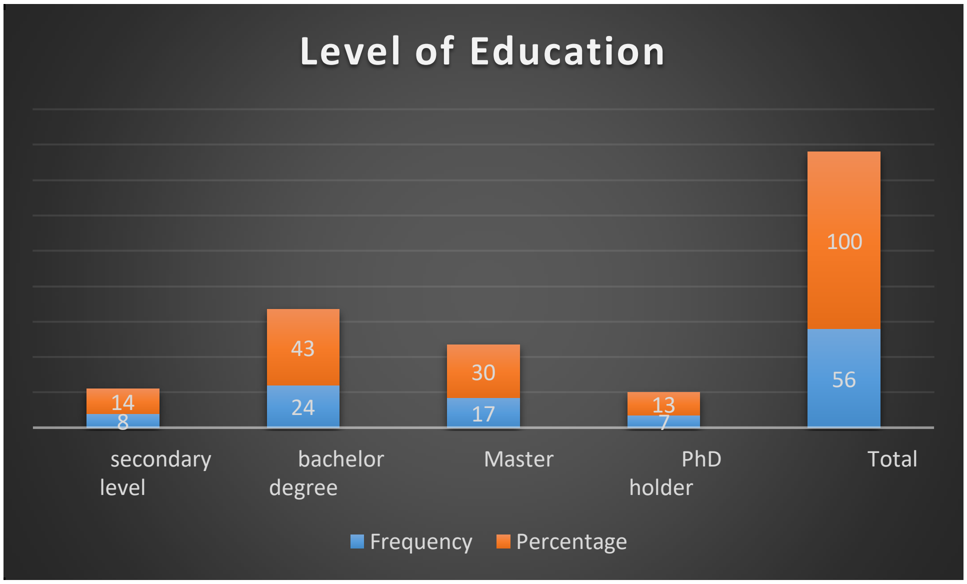

Source: primary Data

In the Table and figure 4.1.3 above showed that the findings of the study indicated that the majority of the respondents were bachelor holders which makes up 43% of the respondents, the second group of the respondents were master level which represents 30% of the respondents, the third group of the respondents were secondary degree holders which represent 14 of the respondents and the other group of the respondents were PhD degree which represent 13%.

Table 4.1.5: Marital status of the respondents

Description	Frequency	Percent
Single	22	39%
Married	34	61%
Total	56	100%

Source: Primary Data

Figure 4.1.4: Marital status of the respondents

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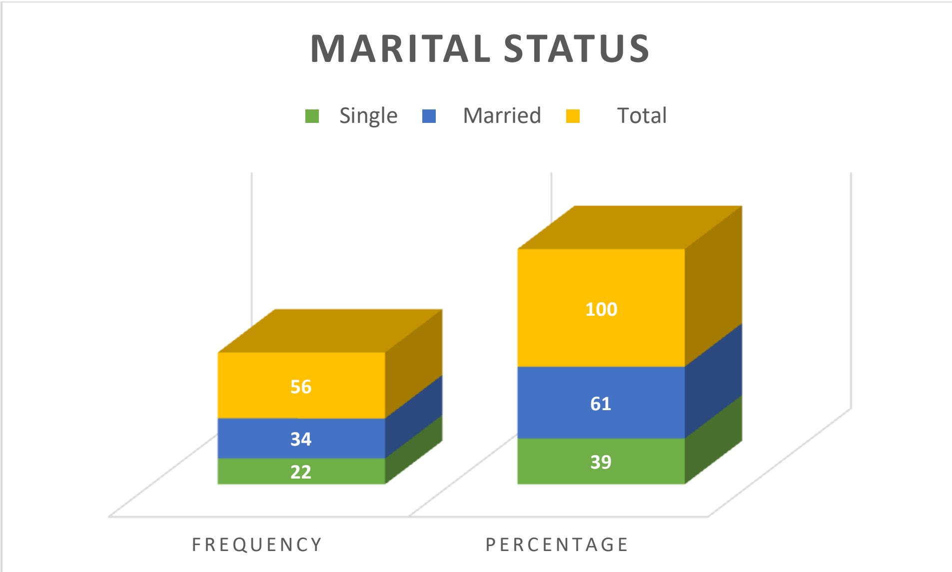

Source: Primary Data

According to the figure and the table of 4.1.4, as it represented The Marital status of the study, it is shows that 61% of the respondents were Married, while 39% were Single status. This implies that most of the respondents were married status.

Section Two 4.2:

Table 4.2.1: Murabahah is one of the most commonly used as mode of financing.

Description	Frequencies	Percentage
Strongly Agree	34	60%
Agree	22	40%
Total	56	100%

Source: Primary Data

Figure 4.2.1: Murabahah is one of the most commonly used as mode of financing.

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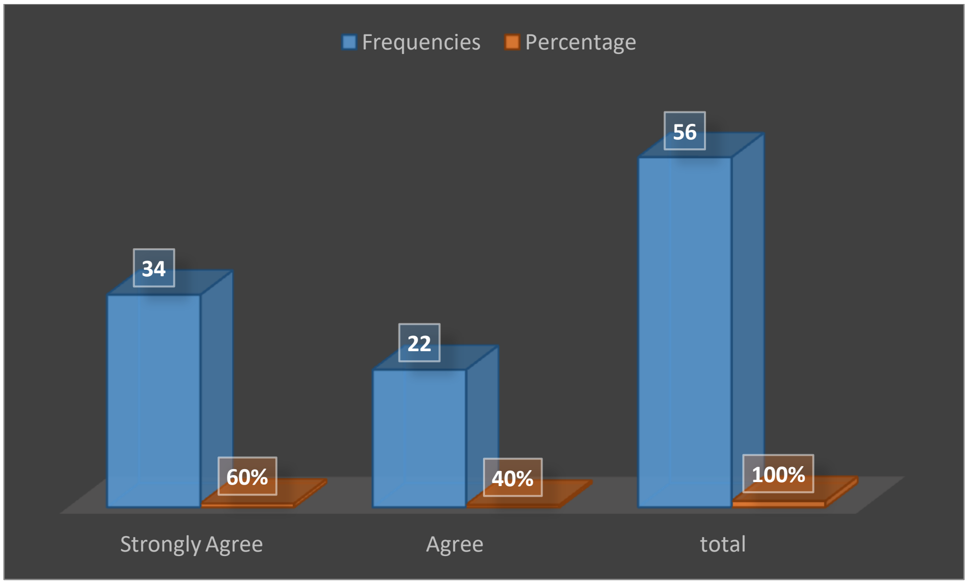

Source: primary data

From the above table and figure 4.2.1 the majority of the respondent declared that the Murabaha is one of the most commonly used as mode of financing. 60% of the respondent voted strongly agree while 40% of the respondent voted agree.

Table 4.2.2: Accessibility of Murabahah can increase the investments.

Description	Frequencies	Percentage
Strongly agree	20	36%
Agree	29	52%
Disagree	7	12%
total	56	100%

Source: primary data

Figure 4.2.2: Accessibility of Murabahah can increase the investments.

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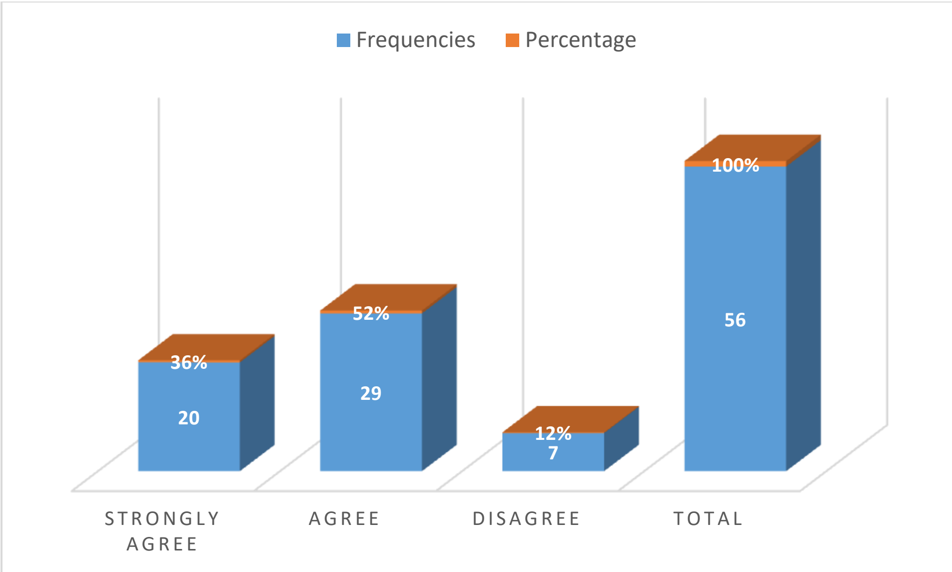

Source: primary data

According to the table 4.2.2 and figure 4.2.2 above it shows the majority of the respondents declared that accessibility of Murabaha can increase the investment. And about 52% and 36% voted agree and strongly about this issue, while 12% of the respondent voted disagree.

Table 4.2.3 Most of Islamic banks in Somalia they provide Murabaha.

Description	Frequencies	Percentage
Strongly agree	15	27%
Agree	30	53%
Disagree	11	20%
Total	56	100%

Source: primary data

Figure 4.2.3 Most of Islamic banks in Somalia they provide Murabaha.

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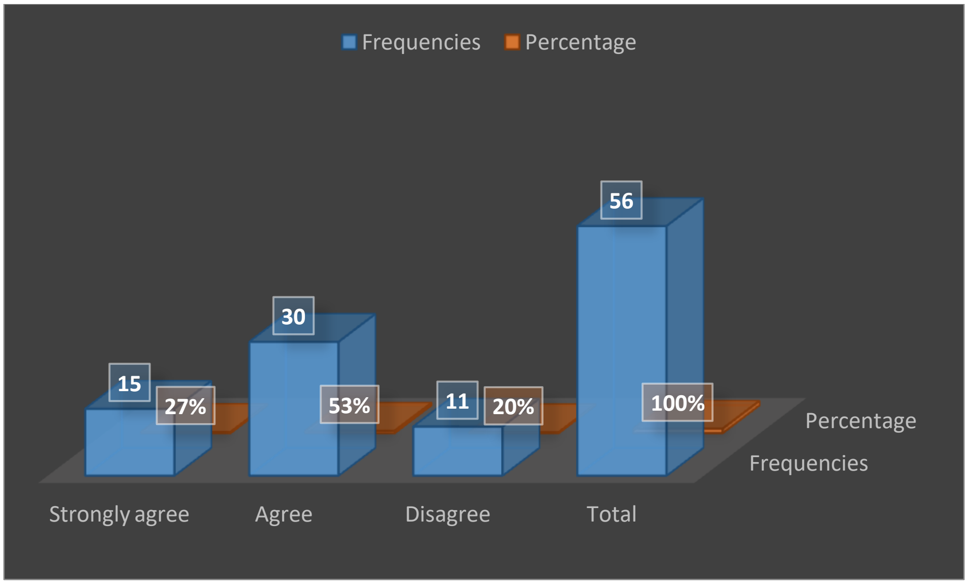

Source: primary data

Table and figure 4.2.3 illustrate that 53% of the respondents were agrees that most of Islamic Banks in Somalia they provided Murabaha while 27% were strongly agrees. And there were 20 % of the respondents whose respond disagree. The majority of the respondents respond agree, that means the most banks they provide Murabaha system.

Table 4.2.4 I think that the Murabahah system can encourages the Islamic Microfinance.

Description	Frequencies	Percentage
Agree	15	26.9%
Disagree	33	58.9%
Strongly disagree	8	14.2%
Total	56	100%

Source: primary data

Figure 4.2.4 I think that the Murabaha system can encourages the Islamic Microfinance.

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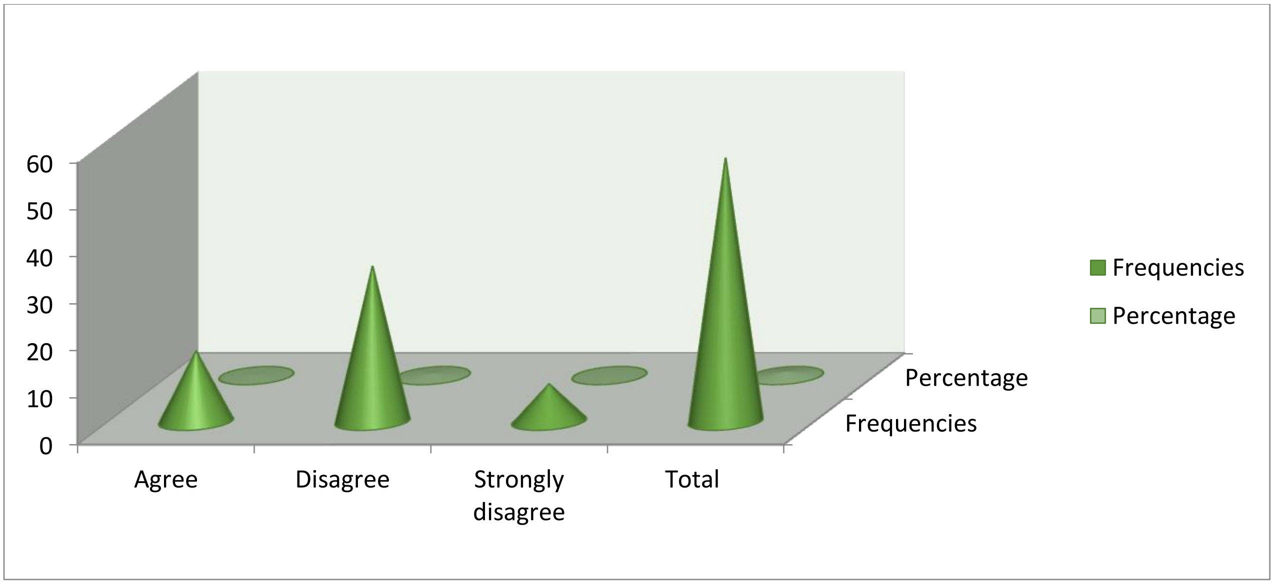

Source: primary data

table and figure 4.2.4 indicates that 58.9 of respondent were respond disagree that 4 I think that the Murabaha system can encourages the Islamic Microfinance while 14.2 were strongly disagree of the respondent that means there is no relationship murabaha system and Islamic Microfinance. There was 26.9 of the respondent respond agree. The majority of respondents disagree this statement.

Section 4.3

Table 4.3.1 Mudarabah agreements creates a partnership business.

Description	Frequencies	Percentage
Strongly agree	24	42.9%
Agree	26	46.4%
Disagree	6	10.7%
Total	56	100%

Source: primary data

figure 4.3.1 Mudarabah agreements creates a partnership business.

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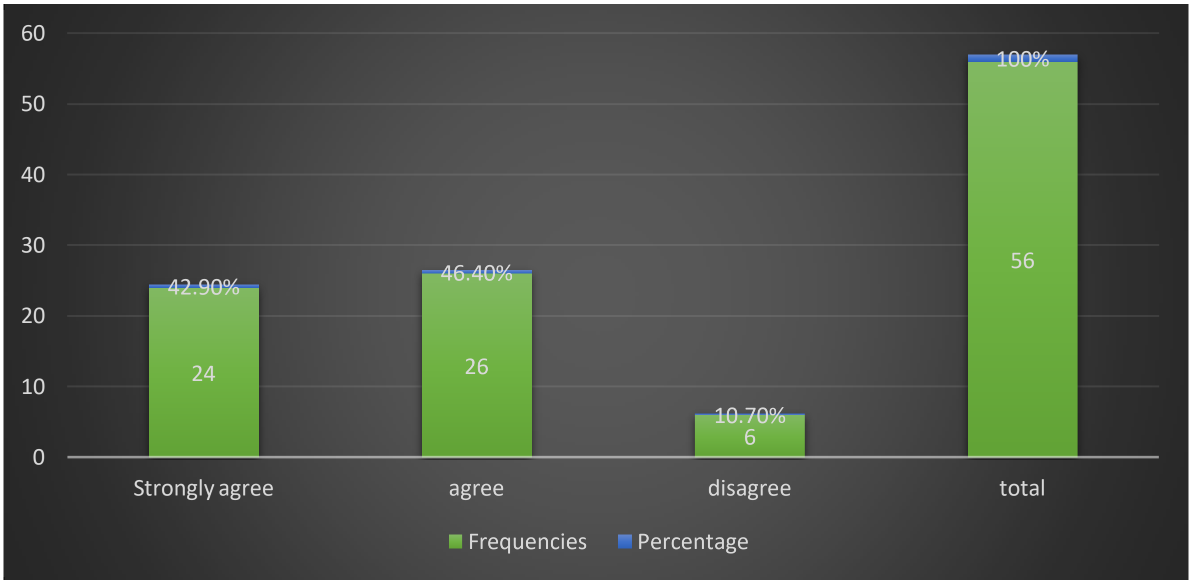

Source: primary data

The above table and figure 4.3.1, it is clear show that 42.9% and 46.4% of the respondent respond strongly agree and agree respectively and they agree the Mudarabah creates a partnership business. While 10.7% of the respondent said disagree. The majority of the respondent were agrees the Mudaraba can create a partnership business.

Table 4.3.2: Do agree the Mudarabah system can encourages the investments.

Description	Frequencies	Percentage
Strongly agree	18	32%
Agree	30	54
Disagree	8	14%
Total	56	100%

Source: primary data

figure 4.3.2: Do agree the Mudarabah system can encourages the investments.

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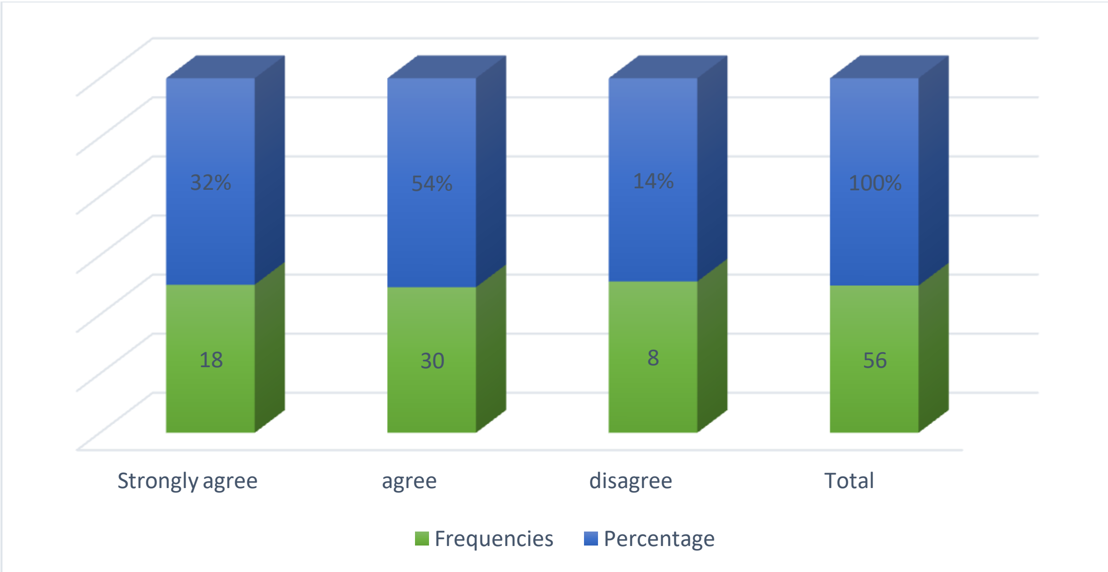

Source: primary data

From the table and figure 4.3.2 above 32% and 54% of the respondent said agree and strong agree that mudarabah system encourages the investment, while 14% said strong disagree and they belief the mudarabah system cannot encourages the investment of Somalia.

Table 4.3.3: In Mudarabah system can reduce unemployment.

Description	Frequencies	Percentage
Strongly agree	10	17.9%
Agree	26	46.4%
Disagree	14	25%
Strongly disagree	6	10.7
Total	56	100%

Source: primary data

figure 4.3.3: In Mudarabah system can reduce unemployment.

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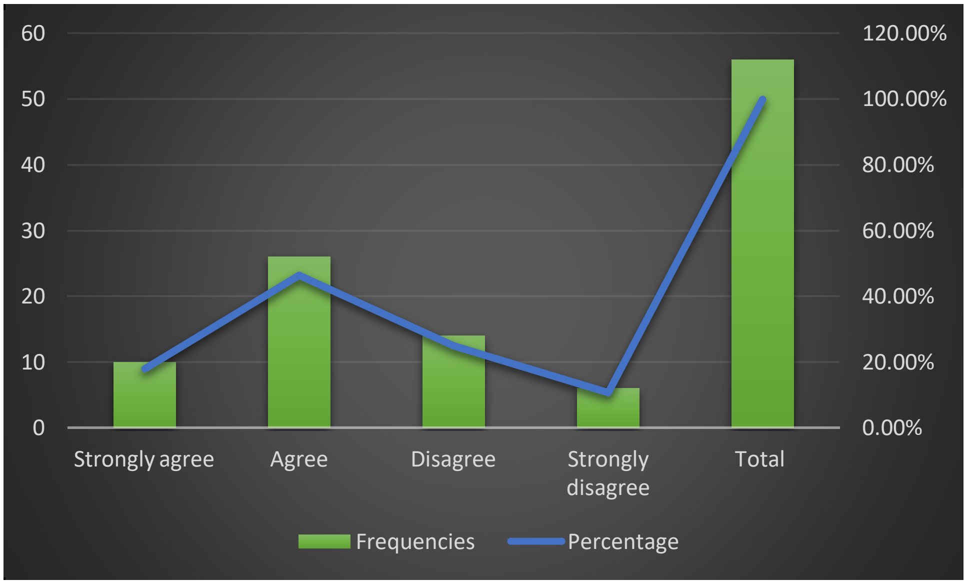

Source: primary data

Table 4.3.3 and figure 4.3.3. indicates that 46.4% of respondents were agrees that Mudarabah can reduce unemployment while 17.9% strongly agree, 25% were disagree and 10.7 were strongly disagree. The majority of respondents were agree that the Mudarabah can be reduce unemployment.

Table 4.3.4: If there is a loss in Mudarabah, that loss effects both capital provider (RABUL-MAL) and entrepreneur (MUDARIB).

Description	Frequencies	Percentage
Agree	12	21.4%
Disagree	28	50%
Strongly disagree	16	28.6%
Total	56	100%

Source: primary data

figure 4.3.4: If there is a loss in Mudarabah, that loss effects both capital provider (RABUL-MAL) and entrepreneur (MUDARIB).

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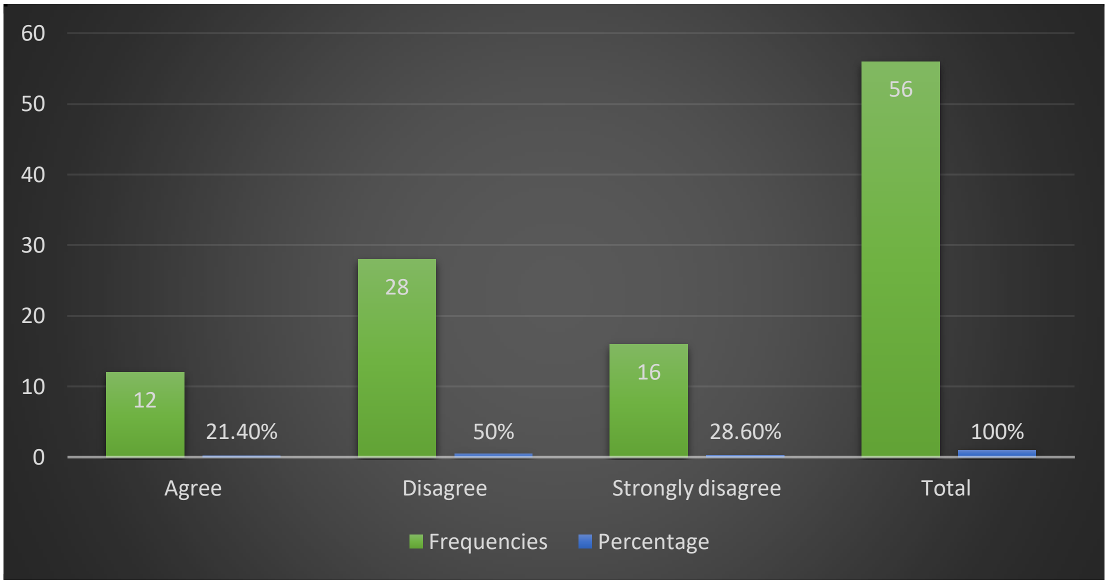

Source: primary data

Table and figure 4.3.4 indicates that 50% of respondent were disagree while 28.6% were strongly disagree in mudaraba losses effects both capital provider and entrepreneur, while 21.4% of the respondents agree the loss of mudarabah effects both capital provider and entrepreneur. The majority of the respondents were disagree the loss of Mudarabah effects both capital provider and entrepreneur.

Section Four 4.4

Table 4.4.1 Musharakah encourages risk sharing**.**

Description	Frequencies	Percentage
Strongly agree	30	53.6%
agree	26	46.4%
Total	56	100%

Source: primary data

figure 4.4.1 Musharakah encourages risk sharing**.**

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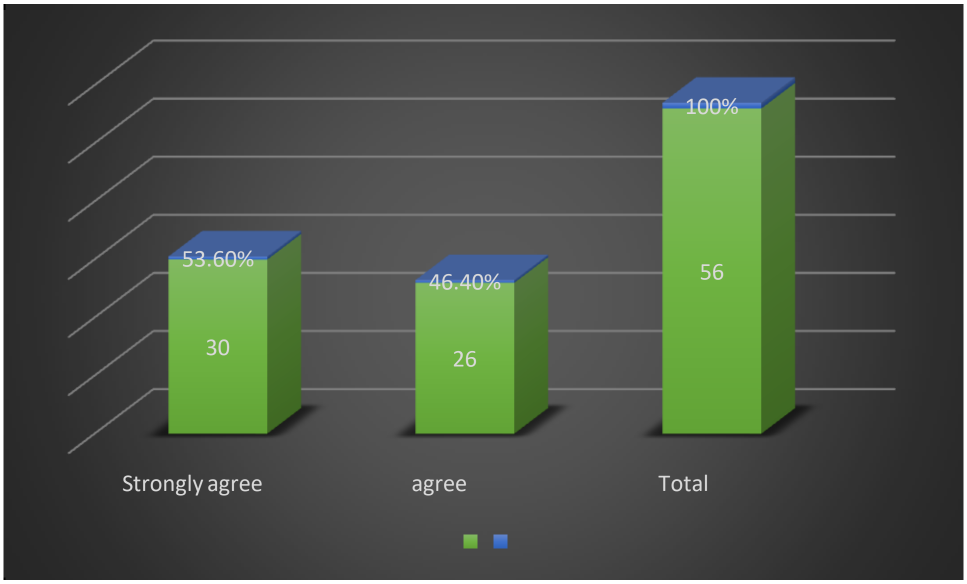

Source: primary data

Table 4.4.1 and figure 4.4.1 above indicates that 53.6% of the respondent were strongly agree that the musharakah encourages risk sharing, while 46.4% of the respondent were agree, that means all the research respondents agree the musharakah encourages the risk sharing.

Table 4.4.2 I think that the Musharakah has a positive role on investments.

Description	Frequencies	Percentage
Strongly agree	13	23.2%
Agree	26	46.4%
Disagree	12	21.4%
Strongly disagree	5	9%
Total	56	100%

Source: primary data

figure 4.4.2 I think that the Musharakah has a positive role on investments.

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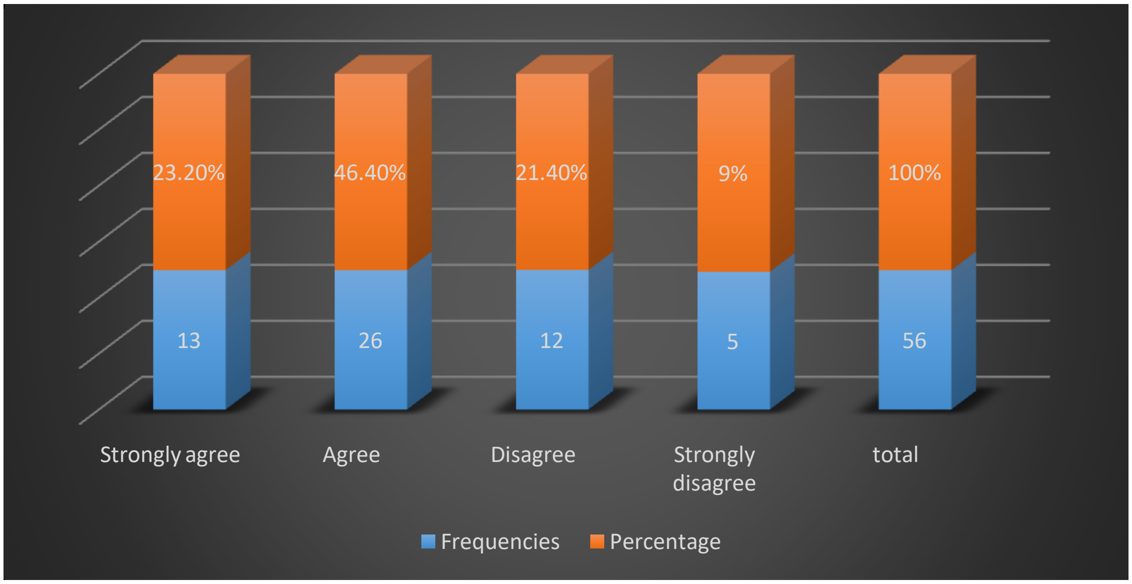

Source: primary data

Table 4.4.2 and graph 4.4.e shows that 46.4% of the respondent were and 23.2% of the respondent were strongly agrees that the musharakah has a positive role on investments, while 21.4% were disagree and 9% of the respondents were strongly disagree, that means there in no role of musharakah on investment.

Table 4.4.3: Do agree the Musharakah contributes the investments in Salam Bank.

Description	Frequencies	Percentage
Strongly agree	9	16%
Agree	22	39.3%
disagree	17	30.4%
Strongly disagree	8	14.3%
total	56	100%

Source: primary data

Table 4.4.3: Do agree the Musharakah contributes the investments in Salam Bank.

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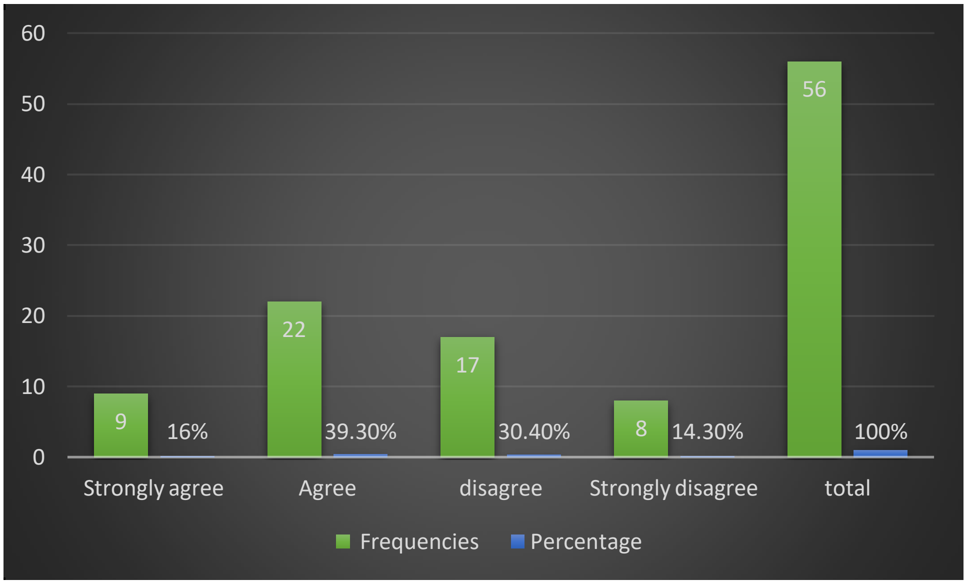

Source: primary data

The respondents were also asked the musharakah contributes the investment in Salaam bank, the result of findings are highlighted in the table and figure 4.4.3 and it is clearly show 39.3% of the respondents were, and 16% were strongly agree. While 30.4% were disagree and 14.3% were strongly disagree. The majority of the respondent were agrees that the musharakah contribute the investment.

Table 4.4.4: the general role of Islamic banks is to provide Islamic investments.

Description	Frequencies	Percentage
Strongly agree	33	59%
Agree	23	41%
total	56	100%

Source: primary data

figure 4.4.4: the general role of Islamic banks is to provide Islamic investments.

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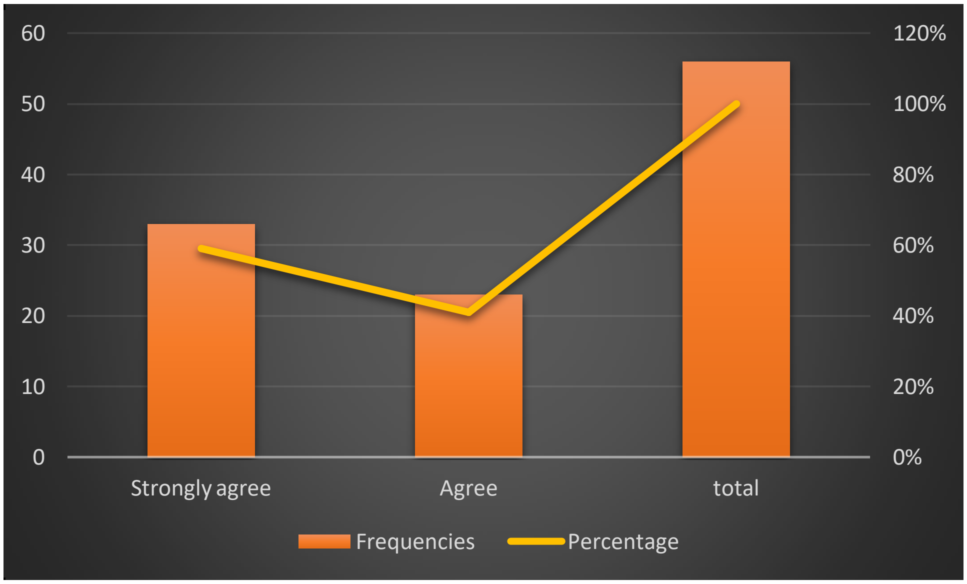

Source: primary data

According to table 4.4.4 and figure 4.4.4 indicates that 59% of the respondent were strongly agree and 41% of the respondent respond agree, that means the main role of Islamic banks is to provide the Islamic investment that is the whole respondent were agree.

Section 4.5

Table 4.5.1: Accessibility of Salam can develop the Agriculture.

Description	Frequencies	Percentage
Strongly agree	12	21.4%
Agree	29	51.8%
Disagree	15	26.8%
Total	56	100%

Source: primary data

figure 4.5.1: Accessibility of Salam can develop the Agriculture.

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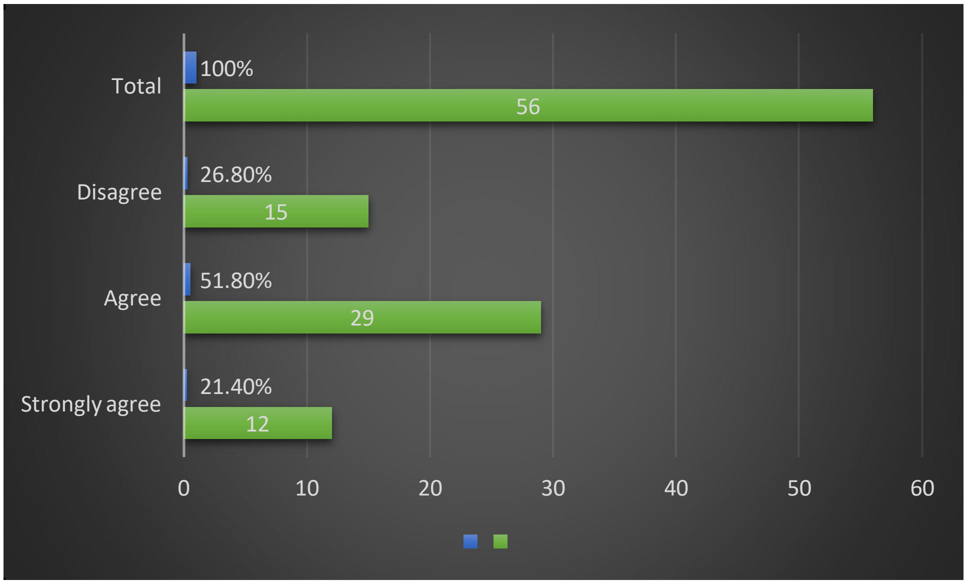

Source: primary data

Table and chart 4.5.1 indicates that Accessibility of Salam can develop the Agriculture. At 51.8% of the respondent were agree and 21.4% were strongly agree, while 26.8% of the respondent were disagree. The majority of the respondent were agree that Salam contract can develop the agriculture.

Table 4.5.2: Salam can only use by Agriculture.

Description	Frequencies	Percentage
Agree	14	25%
Disagree	25	44.6%
Strongly disagree	17	30.4%
Total	56	100%

Source: primary data

figure 4.5.2: Salam can only use by Agriculture.

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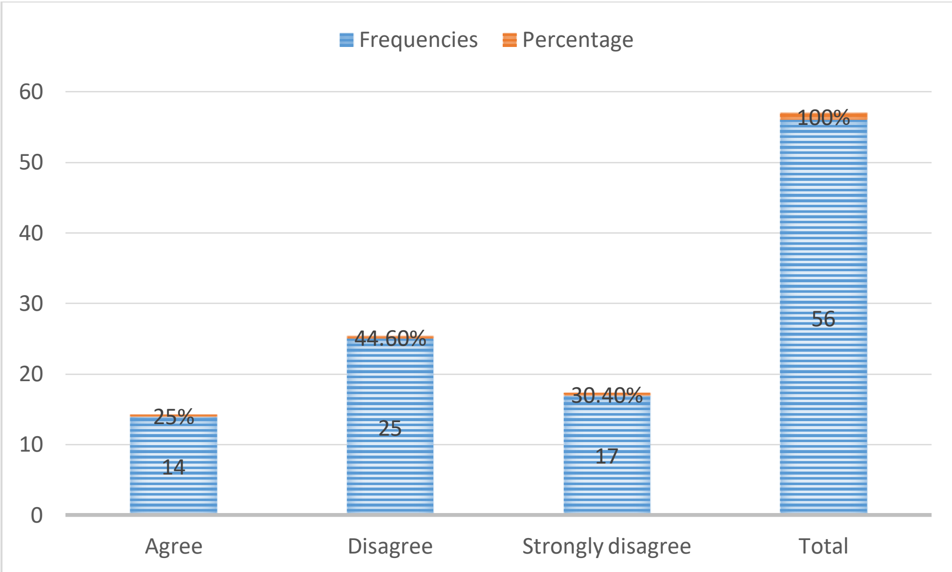

Source: primary data

Table and figure 4.5.2 shows that 44.6% of the respondent were disagree that Salam can only use by agriculture while 30.6% of the respondent were strongly disagree and 25% of the respondent were agree. The majority of the respondent disagree and that shows there are another commodity which can be used by the Salam.

Table 4.5.3: The general role of Salam is to provide capital into the farmers.

Description	Frequencies	Percentage
Strongly agree	37	66%
Agree	19	34%
total	56	100%

Source: primary data

figure 4.5.3: The general role of Salam is to provide capital into the farmers.

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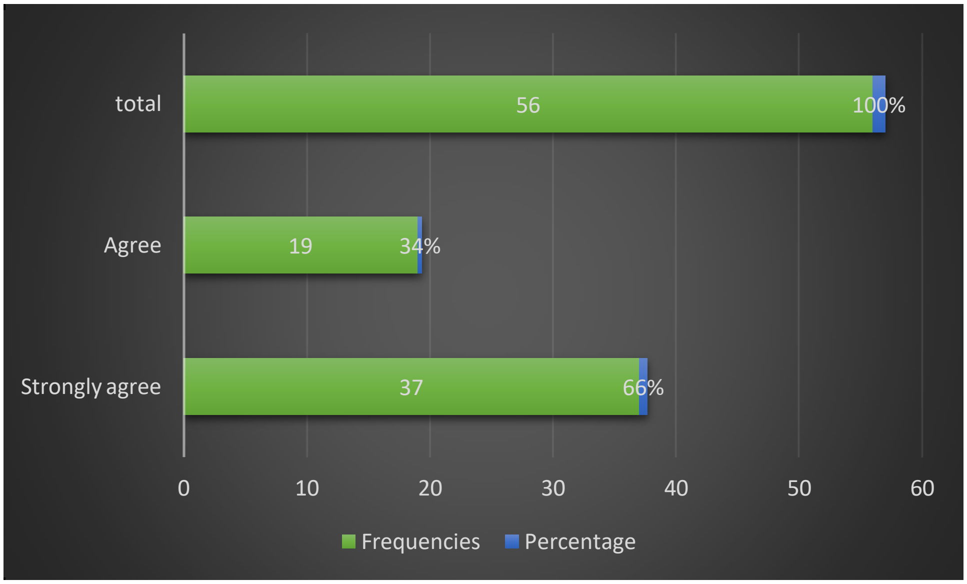

Source: primary data

Table and figure 4.5.3 shows that 66% of the respondent were strongly agree and 34% of the respondent were agree that the role of Salam contract is to provide capital into the farmers.

Table 4.5.4: Salam was beneficial to the seller, because he received the price in advance, and it is beneficial to the buyer also because normally, the price in Salam used to be lower than the price is spot sales.

Description	Frequencies	Percentage
Strongly agree	15	26.8%
Agree	29	51.8%
Disagree	12	21.4
Total	56	100%

Source: primary data

figure 4.5.4: Salam was beneficial to the seller, because he received the price in advance, and it is beneficial to the buyer also because normally, the price in Salam used to be lower than the price is spot sales.

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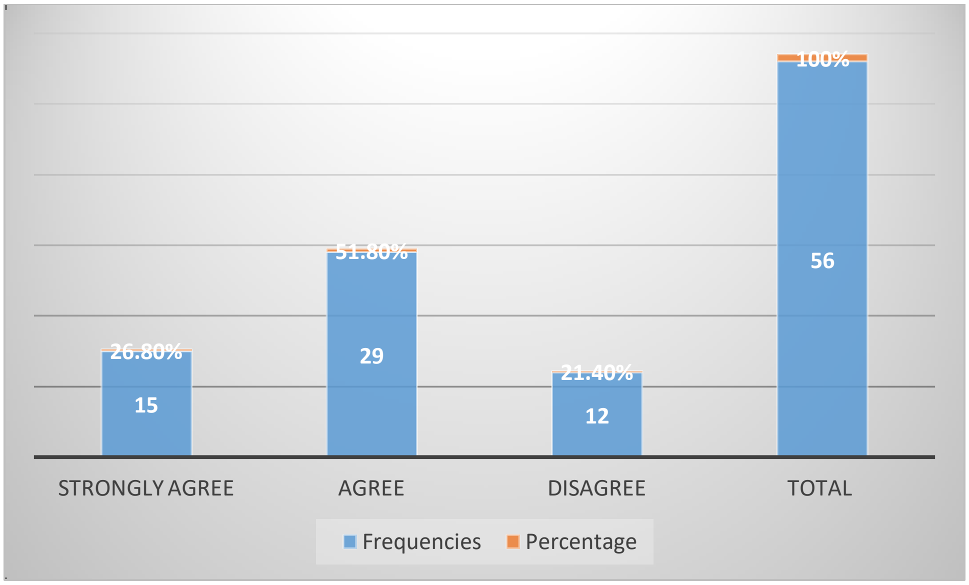

Source: primary data

From the table and figure 4.5.4 above shows that Salam was beneficiaries both seller and buyer. 51.8%% and 26.8%% of the respondents were agree and strong agree respectively, this means both seller and buyer they get beneficiaries of the Salam contracts, while 21.4% of the respondent were disagree. The majority of the respondent were agree.

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Chapter five: Findings, Conclusion and Recommendation

5.0 Introduction

This chapter is intended to discuss and summarize the research findings, research conclusion and recommendations in relating to the study objectives. The discussion explains the findings of the study in support or in distinction to the literature after which conclusions and recommendations are drawn.

5.1 Findings

1. In Somali business people, employee and companies are beginning to understand the importance of Islamic investment whether to build houses or to establish new business through Islamic approaches like Musharakah, Mudarabah, Murabahah and Salam.
2. Islamic investment in Salaam bank Motivate investors in the participation of reduction of unemployment rate among the high skilled labor market.
3. Increasing establishment of new Islamic investors depending on increasing the number of business and the people that needs the Islamic investments in local market , for example last five years four Islamic banks were opened in Bosaso city and other banks are potentially expected or in the process of establishment.
4. The researcher found that the majority of respondents were male more than female. This is because the number of female works in Salaam bank and other place are less compared to male.

   Murabaha findings

5. The findings after the study revealed that there is a positive relation between Murabaha and Investments because the most banks in Somalia they provide murabaha, the research findings also showed that Murabaha has a positive role on entrepreneur development

   The result of Murabaha and investment, the researcher gets that there is strongly relationship murabaha and investment, as the respondents highly and agree in very large number of them while others strong agree only.

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Mudarabah findings

6. Most of the research respondents revealed that the Accessibility of mudarabah system can encourage the investment. The study findings showed that mudarabah system plays crucial role on the encouragement of investment in Salaam bank and it may act as to create of small business partnership.

Musharakah findings

7. The result of musharakah and investment , the researcher gets that there is strongly relationship between musharakah and investment as the respondents were agree in very large number of them while others strongly agree only. Also some of small numbers said strongly disagree and disagree that effect, so the respondents largely agree as the researcher gets this study.
8. The opportunity is higher than threats for Islamic banks (Salaam bank) in Somalia, while it is Muslim community and currently having ambitions to reconstitute their economy with Islamic ways and willing to enhance local investment due high level of stability in the country.

5.3 Recommendation

After the study findings and conclusions, the researcher decided to suggest the following recommendations:

- ✓ The researcher recommended Salaam bank managers must study more about Islamic finance especially Murabaha its new concept which is very important and critical on how contribute global economy
- ✓ Islamic banks institutions to increase entrepreneurship and Islamic investment, the research recommended that Salaam bank should formulate policies and strategies which are aimed to improve and develop commercial banks especially Islamic banks institutions system.
- ✓ The researcher also recommended Salaam bank should encourage the Islamic banks to promote the Islamic investment and also increase **Mudaraba** on investment in Salaam bank.

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- ✓ The researcher also recommended that Salaam bank promote Musharakah plays a significant role in financing business operations based on the principles Shariah .
- ✓ Musharakah allows the financier to receive a return according to a predetermined ratio however, in the event of losses, the financer will also share with the entrepreneur in any losses.

5.2 Conclusion

Islamic investment is free from interest accumulation, maisar gharar, and operations base on selling prohibited products. Operations based on riba (interest) such as activities of commercial and merchant banks, finance companies. In addition, the shariah also promote the giving of zakah and sadaqah for the wellbeing of the society. The objective of this study was to present and discuss the role of Islamic banking products on investment in Salaam bank. This study analyzed in a very detail the process of Islamic finance its way of leading to development of each investment. The process was presented based on theoretical background. The study also argue Musharakah, Mudarabah, Murabaha and Salam contract.

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APPENDIX: Questioner

Name of the Researcher: Mahad Warsame Farah

Dear respondents, I am currently studying Master of Business Administration major of **“Finance”**, at university of daffodil international university, as partial fulfillment towards the completion my postgraduate degree I am titled to perform this study, the purpose of this survey to find out **“the role of Islamic banking products on investment”** I request for your co-operation by helping to answer the questionnaire as per instructions at the beginning of each section. The study is for academic purpose and your respondent was treated with utmost confidentially. In order to accomplish the study kindly requested to complete this questionnaire

Instructions

- ❖ Please feel free to fill in this questionnaire
- ❖ Please don’t write your name on this questionnaire
- ❖ This research is only for academic purpose and not for making money

Email**:** **guure8593@gmail.com**

Regards

Mahad Warsame Farah

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SECTION One: PERSONAL INFORMATION.

GENDER:

Male ☐ Female ☐

AGE CATEGORY:

20-30 years ☐ 31-40 years ☐

41-50 years ☐ above 51 year ☐

YOUR EDUCATIONAL LEVEL

Secondary ☐ Master Degree ☐

Bachelor degree ☐ PhD. Holder ☐

MARITAL STATUS

Single ☐ Married ☐

OCCUPATION

Manager ☐ Employee ☐

Others ☐

Section Two: Murabaha

Please read the following statements and check the box that best reflects your opinion of the statement.

Where 5= Strongly Agree,4= Agree 3= neutral, 2= Disagree 1= Strongly Disagree						
NO	Questions	5	4	3	2	1
1	Murabahah is one of the most commonly used as mode of financing .					

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2	Accessibility of Murabahah can increase the investments.					
3	Most of Islamic banks in Somalia they provide murabahah					
4	I think that the Murabahah system can encourages the Islamic Microfinance.					

Section three: Mudaraba

Where 5= Strongly Agree,4= Agree 3= neutral, 2= Disagree 1= Strongly Disagree						
No	Questions	5	4	3	2	1
1	Mudarabah agreements creates a partnership business.					
2	Do you agree the Mudarabah system can encourages the investments.					
3	In Mudarabah system can reduce unemployment.					
4	If there is a loss in Mudarabah, that loss effects both capital provider (RABUL-MAL) and entrepreneur (MUDARIB).					

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Section four: Musharakah

Where 5= Strongly Agree,4= Agree 3= neutral, 2= Disagree 1= Strongly Disagree						
No	Questions	5	4	3	2	1
1	Musharakah encourages risk sharing					
2	I think that the Musharakah has a positive role on investments.					
3	Do you agree the Musharakah contributes the investments in Salam Bank.					
4	the general role of Islamic banks is to provide the Islamic investments.					

Section Five: Salam contract

Where 5= Strongly Agree,4= Agree 3= neutral, 2= Disagree 1= Strongly Disagree						
No	Questions	5	4	3	2	1
1	Accessibility of Salam contract can develop the Agriculture.					
2	Salam can only use by Agriculture					
3	The general role of Salam contract is to provide capital into the farmers.					
4	Salam was beneficial to the seller, because he received the price in advance, and it is beneficial to the buyer also, because normally, the price in Salam used to be lower than the price is spot sales					

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