

# The Impact of Islamic Financing on the Economic Development of Aden governorate (A Field Study at Saba, Al-kurimi and Tadhamon banks)

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## The Impact of Islamic Financing on the Economic Development of Aden governorate (A Field Study at Saba, Al-kurimi and Tadhamon banks)

### **Abstract:**

This study looked at the impact of Islamic finance on Yemeni economic development, with an emphasis on the role of Islamic banks in the Aden Governorate. Using a qualitative methodology, including a (50) individual sample survey. A questionnaire is used for data collection, which was analyzed with SPSS program.

The methodology of this study is descriptive - analytical, and it consists of a survey questionnaire that has been prepared to determine the objectives and hypotheses of the study. The study has two main aspects, the first one is the theoretical aspect, which defines the importance of the study (practical and theoretical) and the Literature Review and the other aspect is the practical aspect. The collected data has been entered and processed using SPSS package.

The study investigates how profit-and-loss-sharing arrangements and asset-based financing help productive firms grow, improve production, and generate jobs. The data reveal that Islamic financing supplied by Tadhamon, Saba, and Al-Kuraimi banks has a major impact on Yemen's economic development. Asset-based financing methods such as Murabaha and Ijarah boost investment and assist small and medium-sized businesses to thrive.

**Keywords:** *Islamic financing, economic development, long-term sustainability, entrepreneurship.*

## أثر التمويل الإسلامي على التنمية الاقتصادية لمحافظة عدن

(دراسة ميدانية في بنوك سبأ والكريمي والتضامن)

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الملخص:

تناولت هذه الدراسة أثر التمويل الإسلامي على التنمية الاقتصادية اليمنية، مع التركيز على دور البنوك الإسلامية في محافظة عدن. باستخدام منهجية نوعية، اعتمدت الدراسة على استبيان في جمع البيانات من عينة مكونة من (50) فرداً وقد تم تحليل البيانات باستخدام برنامج SPSS. تبحث الدراسة في كيفية مساعدة ترتيبات تقاسم الربح والخسارة والتمويل القائم على أصول الشركات المنتجة على النمو وتحسين الإنتاج وتوليد فرص العمل. وتكشف البيانات أن التمويل الإسلامي الذي تقدمه بنوك التضامن وسبأ والكريمي له تأثير كبير على التنمية الاقتصادية في اليمن. إن ترتيبات تقاسم الربح والخسارة تشجع ريادة الأعمال والابتكار، ولكن أساليب التمويل القائمة على الأصول مثل المرابحة والإجارة تعزز الاستثمار وتساعد الشركات الصغيرة والمتوسطة على الازدهار. ومقارنة بتقنيات التمويل التقليدية، كان للتمويل الإسلامي تأثير أكبر على النمو الاقتصادي. وهذا يسلط الضوء على الدور الحاسم الذي تلعبه البنوك الإسلامية في تحسين المشهد الاقتصادي في اليمن من خلال الممارسات المالية المبتكرة.

الكلمات المفتاحية: التمويل الإسلامي، التنمية الاقتصادية، الاستدامة، طويلة المدى، ريادة الأعمال.

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## **Introduction:**

Financial activities that adhere to Islamic law (Sharia) are known as Islamic finance. One of the main principles of the Islamic financial system is the prohibition of payment and collection of *riba* (interest). In addition to the *riba* ban, there are a number of other important provisions that may affect financial transactions. These include prohibitions on “*gharar*” (uncertain or asymmetric information), “*maysir*” (gambling, speculation), and hoarding, as well as trade in prohibited products (e.g., pork and alcohol).

Over the past decade, Islamic finance has become an effective tool for financing development around the world, including in non-Muslim countries. Major financial markets are uncovering strong evidence that Islamic finance has been integrated into the global financial system. The Islamic finance sector has grown rapidly over the past decade, with an annual growth rate of 10–12%. Including banking and non-banking financial institutions, capital markets, money markets, and insurance (*Takaful*). In many Muslim-majority countries, Islamic banking assets have grown faster than conventional banks. This study addresses the unique challenges faced in Yemen, such as regulatory barriers and political instability. The descriptive and analytical approach is applied, which is considered to be more adequate for this study.

## **Problem Statement:**

Islamic finance has emerged as a rapidly growing sector within the global financial landscape, guided by principles derived from Shariah law. With its ethical and socially responsible approach, Islamic finance offers an alternative financial system that aims to align economic activities with religious values. However, despite the increasing popularity and expansion of Islamic finance, comprehensive study on its impact on economic development is lacking. Understanding the specific contributions, challenges, and potential solutions related to the impact of Islamic finance on economic development is crucial for policymakers, researchers, and practitioners in maximizing its potential benefits. It is wise at this stage to include context-specific challenges in Yemen, such as the lack of legal frameworks or infrastructure for Islamic banking.

## **The problem's main question:**

What is the impact of Islamic finance and its dimensions (assets-based financing, profit and loss sharing) on economic development with its dimension (economic development in Aden Governorate)? It is also advisable at this point to consider research questions that consider external influences, like economic volatility or political unrest, on the effectiveness of Islamic financing mechanisms.

In other words, how do profit and loss sharing and asset-based financing within Islamic financing influence economic development, project sustainability, and financial inclusion?

### **The Problem Sub Questions:**

- Does Islamic financing enhance entrepreneurship?
- Does Islamic financing create long-term sustainability?
- Is Islamic financing better than traditional lending?

### **Significance of the Study:**

The significance of the study may be classified in the following:

#### *Contribution to Islamic Finance Literature:*

This study adds to the existing body of knowledge on Islamic finance by examining the specific impacts of profit and loss sharing and asset-based financing on economic development, project sustainability, and financial inclusion. It contributes valuable insights to the growing field of Islamic finance research.

#### *Policy Implications:*

The findings of this study can inform policymakers and financial institutions about the potential benefits of incorporating Islamic financing mechanisms into development strategies. It highlights the importance of considering alternative financial models for promoting sustainable economic growth and enhancing financial inclusivity.

#### *Socio-Economic Development:*

By demonstrating the positive influence of Islamic financing on economic development, project sustainability, and financial inclusion, this study emphasizes the role of financial systems in driving socio-economic progress. It underscores the potential of Islamic finance to support inclusive growth and address financial exclusion.

#### *Guidance for Practitioners:*

Practitioners in the financial industry can use the insights from this study to design and implement financial products and services that align with Islamic finance principles. It offers guidance on how profit and loss sharing and asset-based financing can be leveraged to promote sustainable projects and improve access to financial resources.

#### *Global Perspective:*

In a global context, where sustainable development goals and financial inclusion are paramount, this study provides a unique perspective on how Islamic finance can contribute to addressing these challenges. It offers a lens through which to explore alternative financial systems that prioritize ethical and equitable practices.

### *Future Research Directions:*

The study sets the stage for further research into the nuanced relationships between Islamic financing mechanisms and various aspects of economic development. It opens avenues for exploring the long-term impacts of these financial practices and investigating their potential scalability and adaptability in different contexts.

### *Interdisciplinary Insights:*

By bridging the fields of finance, economics, and sustainable development, this study fosters interdisciplinary dialogue and collaboration. It encourages a holistic approach to understanding the complex interactions between financial systems, economic growth, and social development.

The significance of Islamic banking on economic growth and development is a topic that has been widely debated and studied. Islamic banking refers to a banking system that operates in accordance with the principles of Islamic law (Sharia). It prohibits the payment or receipt of interest (riba) and promotes ethical and socially responsible financial practices.

Islamic banking can contribute to economic growth by promoting financial inclusion. By offering Sharia-compliant financial products and services, Islamic banks cater to individuals and businesses who prefer to adhere to Islamic principles. This allows a wider segment of the population to access financial services, which can lead to increased economic activity and growth.

Islamic banking promotes stability in the financial system by discouraging excessive speculation and leveraging. The prohibition of interest-based transactions encourages banks to engage in more prudent lending practices, reducing the risk of financial crises.

### **Theoretical Significance of the Study:**

1. Financial Intermediation.
2. Stability and Risk Management.
3. Mobilization of Savings.
4. Encouragement of genuine economic activity.

### **Practical Significance of the Study:**

1. Enhanced Financial Inclusion.
2. Investment in Productive Sectors.
3. Assistance for Small and Medium-Sized Businesses (SMEs).
4. Risk Diversification and Resilience.

### **Objectives of the Study:**

- **Main Objective of the Study:**

To study the impact of Islamic finance on economic development in the Aden governorate. The concept is to show the significance of Islamic finance on economic development.

The primary objective of this study is to investigate the impact of Islamic financing, specifically Profit and Loss Sharing (PLS) and Asset-Based Financing (ABF), on economic development, project sustainability, and financial inclusion. The study aims to achieve the following objectives:

*Examine the Relationship:*

Explore and analyze the relationship between profit and loss sharing and asset-based financing within Islamic financing and their effects on economic development, project sustainability, and financial inclusion.

*Quantify the Impact:*

Quantify the impact of profit and loss sharing and asset-based financing on economic development indicators, project sustainability metrics, and financial inclusion indices to understand the magnitude of their influence.

*Provide Insights:*

Offer insights into how Islamic financing mechanisms can contribute to sustainable economic growth, support the long-term viability of projects, and enhance financial inclusivity within communities.

*Inform Policy and Practice:*

Provide evidence-based findings that can inform policy decisions and guide financial institutions in integrating Islamic finance principles into their operations to drive positive socio-economic outcomes.

*Contribute to Knowledge Base:*

Contribute to the existing literature on Islamic finance by adding empirical evidence on the impacts of profit and loss sharing and asset-based financing. Expand the knowledge base in this field and stimulate further research on alternative financial models.

*Bridge Research and Application:*

Bridge the gap between theoretical research on Islamic finance and its practical applications by translating academic insights into actionable recommendations for stakeholders in the financial industry and policy-making spheres.

*Enhance Understanding:*

Enhance your understanding of the role of Islamic finance in promoting economic development, project sustainability, and financial inclusion and highlight its potential contributions to achieving broader development goals.

By addressing these objectives, the study aims to provide a comprehensive analysis of the significance of Islamic financing mechanisms in fostering sustainable economic growth, supporting resilient projects, and promoting inclusive financial systems.

**Sub Objectives:**

1. The use of profit- and loss-sharing arrangements in the banking systems in Yemen.
2. To shed light on the concept of asset-based financing and its effects on economic development in Yemen.
3. To encourage financial support for productive enterprises that can increase output, which will lead to economic revitalization in the area, allowing the creation of more job opportunities.

**Conceptual Framework:**

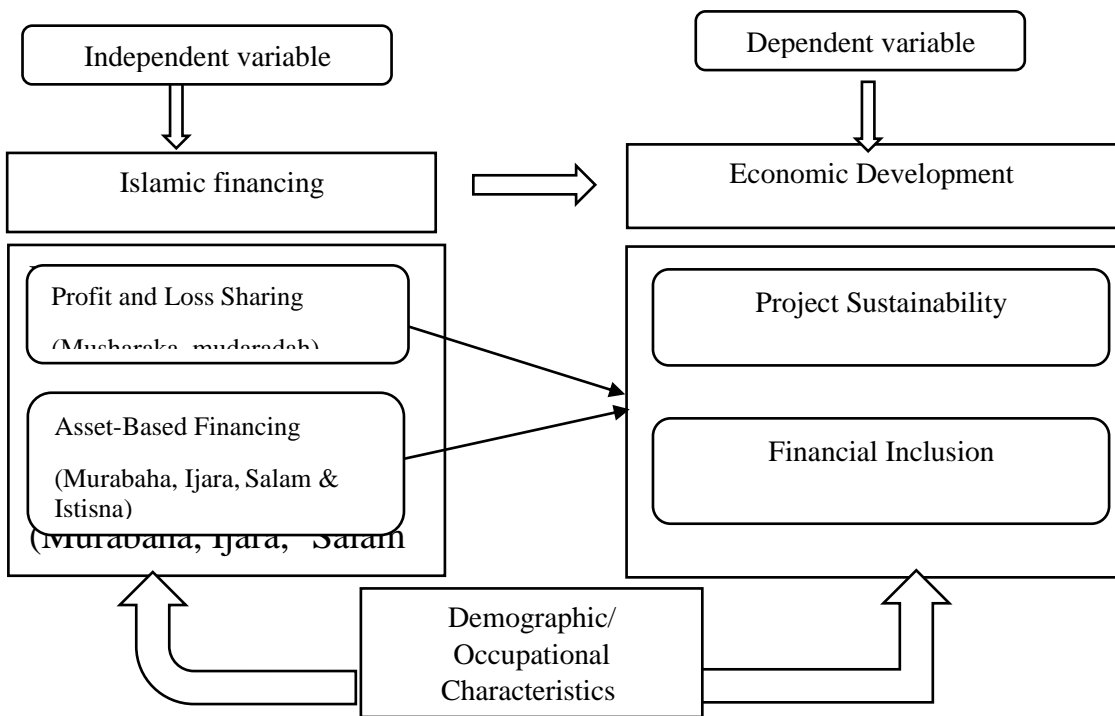


Figure (1) Conceptual Framework  
(Prepared by the researchers based on the previous literature)

**Hypothesis:**

*The Main Hypothesis:*

There is no significant effect of Islamic finance on the development of the economy." At a significant level of 0.05

*The First Subhypothesis:*

There is a significant effect of sharing profit and loss in the development of the economy at a level of 0.05.



*The second hypothesis:*

Asset-based financing has a significant effect on the development of the economy at a significant level (5% =  $\alpha$ ).

### **Procedural Definitions:**

#### *1. Islamic Finance (Independent Variable):*

Islamic Financing: Islamic finance is a financial system that follows Islamic Sharia principles, which forbid the payment or acceptance of interest fees (riba) for lending and accepting money. It emphasizes risk-sharing and ethical investing, and it includes a variety of Islamic-compliant financial activities such as profit and loss sharing agreements (Mudarabah and Musharakah), asset-based financing (Murabaha), and leasing (Ijarah).

#### *2. Economic Development (Dependent Variable):*

Economic development is the process of improving a society's economic and social conditions through increased productivity and long-term economic growth, more equitable wealth distribution, and the creation of new economic opportunities. This development entails investing in education, infrastructure, and healthcare, as well as promoting social welfare and sustainable development.

### **Definitions of Independent Variable Dimensions (Islamic Financing):**

*Profits and losses Sharing* is an Islamic finance principle in which all parties involved in a business venture or investment share profits and losses based on predetermined ratios, in accordance with Islamic Sharia principles. This financial arrangement ensures that risk is distributed equitably among partners, in line with their respective investment contributions. It focuses on fairness and mutual benefit, encouraging a collaborative approach to business ventures and investments.

*Asset-based financing*, also known as Islamic asset-backed financing, is a financial arrangement that adheres to the principles of Islamic law (Shariah). It involves providing financing or capital by utilizing tangible assets as the basis of the transaction. This may include real estate, equipment, inventory, or other permissible assets according to Islamic principles. The financing arrangement may take various forms, such as murabaha (cost-plus sale), ijara (leasing), musharakah (partnership), or sukuk (Islamic bonds).

### **Definitions of Dependent Variable Diminutions (Economic Development):**

*Project sustainability* is the practice of designing, implementing, and managing projects in a way that ensures their long-term viability and positive impact while incorporating environmental, social, and economic factors. It entails balancing immediate economic benefits with long-term environmental responsibility and social equity, ensuring that the project's operations, services, and benefits can be sustained

throughout its lifecycle and beyond without jeopardizing future resources or stakeholder interests.

*Financial Inclusion:* is the process of ensuring that individuals and businesses, particularly the underserved and low-income, have access to useful, affordable, and timely financial products and services. Banking, credit, insurance, and payment systems are examples of services that meet their needs while also being fair, transparent, responsible, and sustainable, as provided by mainstream institutional players.

### **Study Limits:**

#### *Subjective Limits:*

The impact of Islamic financing in the banks and its effect on the economic development in Aden.

#### *Physical Limits:*

The physical boundaries of this study are the Saba Islamic Bank, Al-Tadhamon Bank, and the Al-Kuraimi Microfinance Bank, which are operating in the Aden governorate.

#### *Human Limits:*

The human limitations of this study are represented by the individuals involved in implementing this study, namely the CEO, heads of sectors, department managers and their deputies, branch managers and their deputies, and department heads.

#### *Timeline Limits:*

The study covers the period of 2023-2024.

### **Literature Review:**

A study was conducted on some published and unpublished scientific studies in order to identify the studies that have been carried out and related to the topic of the study. This is to benefit from them in understanding and formulating the problem of the study, its objectives, and its hypotheses, and based on the identified conceptual model. The study will review the most important study and studies related to the study of the impact of Islamic banks in developing the economy in Yemen and the most important study related to Islamic banks and the development of the economy. The researchers were eager to find out specific literature on the Yemen environment to incorporate more Yemen-specific research to provide a localized perspective on the challenges and opportunities for Islamic finance, but unfortunately, they couldn't succeed in such an attempt. However, other related research was adopted in the following, which may help to shed light on analyzing how the socio-political environment in Yemen impacts the adoption and effectiveness of Islamic financial practices.

1) Sayedi, S. Q. (2017). Studied the Impact of Islamic Banking on Economic Growth in (Bachelor's thesis, Tolo-E-Aftab Institute of Higher Education). Islamic Republic of Afghanistan.

The study titled "Impact of Islamic Banking on Economic Growth: A Case Study of Afghanistan" examines the influence of Islamic banking on Afghanistan's economic expansion. The objectives of the study include analyzing the features and operational model of Afghanistan's Islamic banking system, ensuring compliance with Shariah principles, and evaluating the adherence of Islamic banks to the tenets of Islamic banking. Islamic banking is one of the fastest-growing segments in the financial market industry, based on Shariah law, which prohibits interest due to its negative impact on society, wealth distribution, and economic stability. Given Afghanistan's predominantly Muslim population, there is a growing demand for Islamic banking services. The study explores the impact of Islamic banking on economic growth in Afghanistan and highlights potential obstacles. It introduces Islamic financial products such as Murabaha, Mudarabah, Musharaka, Salam, Istisna, and Ijarah. The study population represents the rising need for Islamic banking in Afghanistan. The study recommends modifications to the banking system's structure, efficient policies, close monitoring of projects, the establishment of a Shariah board for oversight, the provision of banking services across all provinces, and the introduction of insurance services. The availability of Islamic banking services is expected to encourage more people to deposit money, thus boosting circulation and contributing to the country's economic development.

2) Soumadi, M. M., & Smadi, A. A. A. (2023). Islamic Banking Institutions and their Role in Economic Development of Jordan. *International Journal of Professional Business Review*, 8(5), 01-21.

The study titled *Islamic Banking Institutions and Their Role in the Economic Development of Jordan*: The objective of this study is to illustrate the significance of economic financing at Jordanian Islamic banks. It examines the features of Islamic banking finance, evaluates its reality in Jordan, and investigates its impact on savings, investment, unemployment, inflation, and GDP. The study also aims to provide useful recommendations for Jordanian Islamic banks. This study utilizes data from 2015 to 2020 to analyze the importance of economic financing in Jordanian Islamic banks. The results indicate that financing in these banks has a limited impact on GDP and inflation. However, it does show a statistical effect on the housing, construction, and public commercial sectors. The study recommends directing financing in Jordanian Islamic banks toward real projects that align with societal priorities. This entails activating risky formulas such as participation and speculation while ensuring that financing aligns with the goals of Islamic banking and the economic objectives of society.

### 3) Goaid, M., & Sassi, S. (2010). Financial Development and Economic Growth in the MENA Region: What about Islamic Banking Development?

The objective of this study is to present the theoretical advantages of Islamic banking and the main developmental characteristics of its financing modes.

-To empirically assess the relationship between financial development and economic growth in selected countries within the MENA region.

-To examine the specific effect of the Islamic banking sector on economic growth using the amount of credit issued to the private sector by Islamic banks as a measure of Islamic financial development.

-To identify the peculiarities of the Islamic financial system through the analysis of empirical findings. The purpose of this study paper is to investigate the theoretical benefits of Islamic banking as well as its developmental characteristics. It looks at the relationship between financial development and economic growth in the MENA region further. The study focuses on the impact of the Islamic banking sector on economic growth by using credit issued by Islamic banks as a measure of financial development. The study's goal is to identify the distinctive features of the Islamic financial system. The study employs an unbalanced panel data set from 16 MENA region countries. The study focuses on selected countries within the MENA region.

### 4) Islamic Banking and Economic Growth: A Review

El-Galfy, A., & Khiyar, K. A. (2012). Islamic Banking and Economic Growth: A Review. *The Journal of Applied Business Study*, 28(5), 943-958.

The study "Islamic Banking and Economic Growth: A Review" aims to examine the potential effects of Islamic banking on economic growth and address the limited focus in existing literature on this topic. The abstract highlights the scarcity of studies specifically investigating the relationship between Islamic banking and economic expansion, contrasting with the extensive research on the connection between finance and economic growth in general. Existing literature reveals conflicting evidence regarding whether Islamic banking drives economic growth and emphasizes the limitation of previous studies, primarily confined to a single country, making it challenging to generalize the results. The study sample comprises previous studies that have specifically examined the impact of Islamic banking on economic growth. The study population encompasses the historical development and growth of Islamic banking, including the establishment of the first modern experiment in Egypt in 1963, the re-emergence of the Islamic banking movement in the 1970s, and the establishment of various Islamic banks in Muslim and non-Muslim countries. The abstract suggests that the study's findings have implications for legislation, particularly highlighting the positive impact of Islamic banking on policy. As a

recommendation for future study, the abstract proposes the use of panel data analysis instead of time-series analysis to investigate the impact of Islamic banking on economic growth.

5) Kassim, S. (2016). Islamic finance and economic growth: The Malaysian experience. *Global Finance Journal*,

The study titled "Islamic Finance and Economic Growth: The Malaysian Experience" aims to empirically investigate the influence of Islamic finance on major macroeconomic indicators in Malaysia. It evaluates the contribution of Islamic finance to real economic activity and assesses its role in effective financial intermediation by pooling and channeling funds to investment activities. The study utilizes quarterly data from 1998 to 2013 and employs the ARDL (Autoregressive Distributed Lag) approach to analyze the relationship between Islamic finance and macroeconomic performance during the specified period. The study population encompasses the increasing presence of Islamic banking and finance in Malaysia's financial sector, highlighting the country's role in the global Islamic finance industry. It focuses on the overall development and growth of Islamic finance in Malaysia, including the establishment of Islamic banking institutions, regulatory frameworks, and industry practices. The study recommends that Islamic banks emphasize shari'ah-compliant investment deposits to attract long-term savers, enabling them to invest in productive projects without time lags. Furthermore, it suggests a balanced allocation of funds between take-up and business expansion purposes to maximize the contributions of Islamic finance to real economic activities. The findings of this study provide insights into the impact and effectiveness of Islamic finance in Malaysia's economy.

6) Ahmed, S., Khan, M. A., & Ali, S. (2022). Examining the Impact of Islamic Financing on Economic Development in Muslim-Majority Countries. *Journal of Islamic Economics and Finance*.

The target of this study is to examine the impact of Islamic financing on economic development in Muslim countries. This study investigates the influence of Islamic financing mechanisms on economic development within Muslim-majority countries. By analyzing data from a sample of selected nations over a ten-year period, this research employs regression analysis to assess the relationship between Islamic finance and key economic indicators such as GDP growth, investment levels, and poverty rates. The findings suggest that Islamic financing instruments have a positive and significant impact on economic development, providing valuable insights for policymakers and financial institutions seeking to foster sustainable growth in these economies.

7) Hassan, A., & Abbas, M. (2023). The Role of Islamic Microfinance in Promoting Economic Development in Developing Countries. *Journal of Islamic Economics and Finance Studies*.

The objective of this study is to illustrate the significance of economic financing at the Islamic banks. It examines the features of Islamic banking finance, evaluates its reality, and investigates its impact on savings. This research paper investigates the role of Islamic microfinance in fostering economic development in developing countries. Through a comprehensive literature review and empirical analysis of case studies, the study assesses the impact of Islamic microfinance institutions on poverty alleviation, entrepreneurship development, and financial inclusion. The findings highlight the unique features of Islamic microfinance, such as profit-sharing and asset-backed financing, in promoting sustainable economic growth and social empowerment among marginalized populations.

8) Ali, H., Rahman, A., & Ahmad, M. (2021). Islamic Finance and Economic Development: A Comparative Study of Conventional and Islamic Financial Systems. *Journal of Islamic Banking and Finance*.

The objective of this specific study is showing the correlation between Islamic finance and economic development. This comparative research study explores the role of Islamic finance in promoting economic development compared to conventional financial systems. By employing a mixed-methods approach, including case studies and statistical analysis, the research examines the performance of Islamic financial institutions in fostering inclusive growth, financial stability, and social welfare. The results indicate that Islamic finance contributes positively to economic development by promoting risk-sharing, ethical investment practices, and financial inclusion, suggesting its potential as a viable alternative to conventional finance in achieving sustainable development goals.

9) Khalid, R., & Hameed, I. (2021). Islamic Capital Markets and Economic Development: A Cross-Country Analysis. *International Journal of Islamic Finance and Economics*.

The main objective of this study is to demonstrate the importance of Islamic capital markets and their impact on economic development through the banks. It examines the features of Islamic banking finance, evaluates its reality, and investigates its impact on savings. This study examines the relationship between Islamic capital markets and economic development across a sample of diverse countries. By employing panel data analysis and econometric modeling techniques, the research evaluates the impact of Islamic capital market activities on key development indicators, including investment levels, financial stability, and GDP growth. The results suggest that Islamic capital markets play a significant role in enhancing

economic development by facilitating efficient resource allocation, encouraging ethical investment practices, and promoting financial stability in both Islamic and non-Islamic economies.

10) Al-Mansour, K., & Ibrahim, F. (2020). Islamic Banking and Economic Growth in the Middle East: Empirical Evidence from GCC Countries. *Journal of Middle Eastern Economics*.

The objective of this study is to demonstrate the significance of Islamic financing at the Islamic banks. It examines the features of Islamic banking finance, evaluates its impact, and investigates its effects on the bank savings. This study examines the relationship between Islamic banking activities and economic growth in the Gulf Cooperation Council (GCC) countries. Using time series data and econometric techniques, the research investigates the impact of Islamic banking assets, financing, and profitability on GDP growth and investment levels in the region. The findings reveal a positive and significant association between Islamic banking development and economic growth in the GCC countries, suggesting that Islamic finance plays a vital role in supporting sustainable development and financial stability in the Middle East.

11) Khalil, N., & Saleh, A. (2020). Impact of Islamic Social Finance on Poverty Alleviation in the Middle East: A Case Study of Zakat and Waqf Institutions. *Journal of Islamic Social Finance*.

The objective of this case study is defining the impact of Islamic social financing on poverty alleviation in the Middle East. This research study investigates the impact of Islamic social finance instruments, specifically Zakat and Waqf, on poverty alleviation in the Middle East region. Through a combination of qualitative interviews, surveys, and statistical analysis, the research assesses the effectiveness of Zakat and Waqf institutions in addressing socio-economic disparities and enhancing social welfare outcomes. The results highlight the significant role of Islamic social finance mechanisms in reducing poverty, promoting social justice, and fostering inclusive development in Middle Eastern societies.

12) Abdel-Rahman, M., & Ali, H. (2021). Islamic Finance and Economic Development in the Arab World: A Comparative Analysis of Islamic and Conventional Banking Systems. *Arab Economic Studies Journal*.

The objective of this study is to show the effects of Islamic financing on economic development in the Arab world. This research study compares the contributions of Islamic finance and conventional banking systems to economic development in Arab countries. Through a mixed-methods approach combining quantitative analysis and case studies, the research evaluates the role of Islamic financial institutions in promoting sustainable growth, financial inclusion, and stability in the region. The

findings suggest that Islamic finance, with its emphasis on ethical principles and risk-sharing, plays a significant role in fostering economic development and financial resilience in Arab economies, offering a viable alternative to conventional banking.

13) Hassan, R., & Mahmoud, A. (2020). Impact of Islamic Microfinance on Entrepreneurship and Poverty Alleviation in Arab Countries: A Case Study of Jordan. *Journal of Islamic Finance and Entrepreneurship*.

The main objective of this study is to reflect the impact of Islamic microfinance on entrepreneurship and poverty alleviation in the Arab countries. This study examines the impact of Islamic microfinance on entrepreneurship development and poverty alleviation in Arab countries, focusing on a case study of Jordan. Through survey data and qualitative analysis, the research assesses the effectiveness of Islamic microfinance institutions in supporting small businesses, creating employment opportunities, and reducing poverty levels in the region. The results highlight the positive role of Islamic microfinance in fostering economic empowerment and social inclusion among vulnerable populations in Arab countries like Jordan.

This study provides insights into the research conducted on the impact of Islamic financing, specifically Islamic banking systems and Islamic microfinance, on economic development, entrepreneurship, and poverty alleviation in Arab countries, with a focus on the unique context and challenges within the Arab region.

### **Target Population:**

The target population of the study includes:

Employees and clients who have utilized Islamic financing products, such as Islamic finance, Islamic mortgages, and Islamic profit and loss sharing (partnership). The target population also includes the staff working in the aforementioned banks.

### **Target Sample:**

The size of the target sample had been determined to be 50 individuals who have answered the questionnaire.

### **Study Methodology:**

The methodology of this study is descriptive-analytical, and it consists of a survey questionnaire that has been prepared to determine the objectives and hypotheses of the study. The simple random sampling is used for designing the study sample. The questionnaire, after designing, has been reviewed by a number of concerned academics and stakeholders to assure the reliability and validity of the questionnaire. The questionnaire was further validated using techniques like pre-testing to ensure reliability.



The study has two main aspects: the first one is the theoretical aspect, which defines the importance of the study (practical and theoretical) and the literature review, and the other aspect is the practical aspect. The collected data has been entered and processed using the SPSS package. Several tools of SPSS have been adopted, as were needed, to reach the requested results of the study.

### Analysis of the Result:

Distribution of a sample for a study according to the characteristics of the sample:

The researchers in this section divided the study sample according to personal and functional variables, where the study sample was distributed as follows:

#### 1. Distribution of study sample by sex:

Table (1) Distribution of Study Sample by Sex

Sex	Frequency	Percentage %
male	39	78.0
female	11	22.0
<b>Total</b>	50	100.0

Source: The output of SPSS

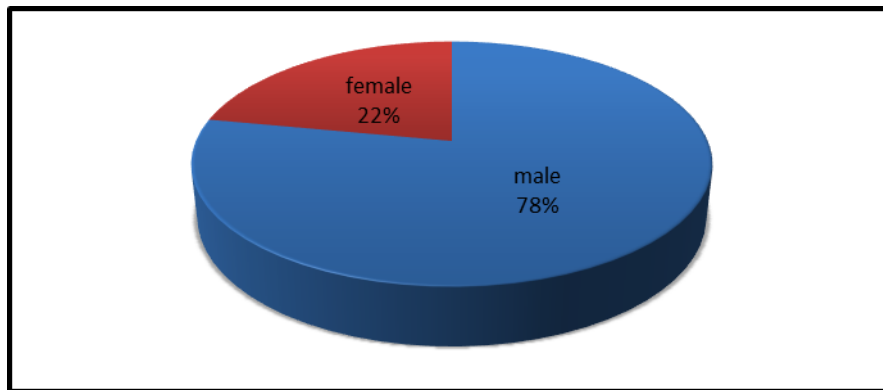


Figure (1) Relative Distribution of Study Sample by Sex

Source: The output of SPSS

Table (1) shows that the percentage of males is more than females, where the percentage of males (78.0%) compared to the percentage of females (22.0%). The reason is associated with the philosophy of each bank in recruiting process. The philosophy may change in the future as the female clients increases with these banks. This implication of gender disparities in Islamic financing participation and employment expected to diminish as the target female customers approaching the bank in the future.

## 2. Distribution of the study sample by age:

Table (2) Distribution of Study Sample by Age

Age groups	Frequency	Percentage %
<b>18-24</b>	2	4.0
<b>25-34</b>	14	28.0
<b>35-44</b>	22	44.0
<b>45-54</b>	10	20.0
<b>55 and above</b>	2	4.0
<b>Total</b>	50	100.0

Source: The output of SPSS

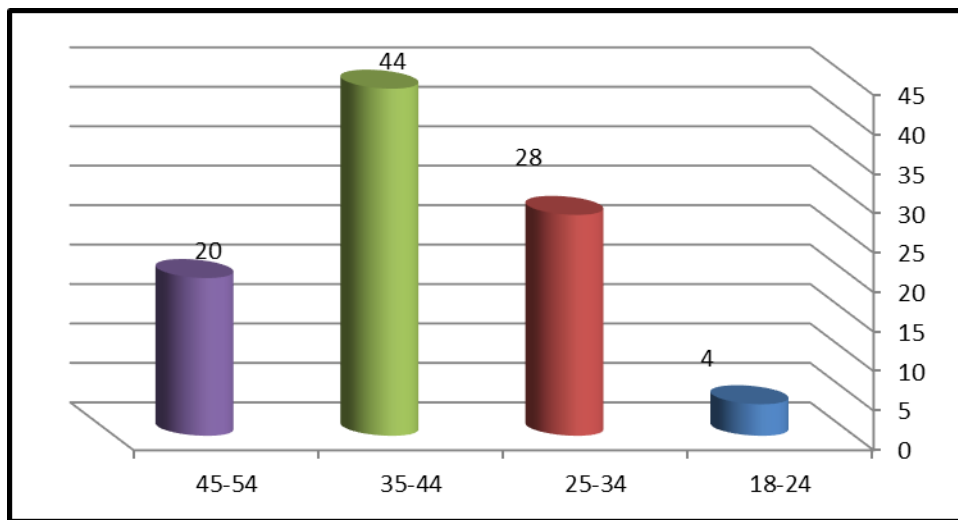


Figure (2) Relative Distribution of Study Sample by Age

Source: The output of SPSS

The previous table No. (2) shows that most of the individuals working in Islamic banks (Tadhamon - Saba - Al-Kuraimi) in Aden Governorate are concentrated in the age group (35-44) years, where they represent (44.0%) of the total and the number of individuals working in Islamic banks (Tadhamon - Saba - Al-Kuraimi) in Aden Governorate in the age group (25-34) comes in second place by (28.0). While the number of individuals working in Islamic banks (Tadhamon - Saba - Al-Kuraimi) in Aden Governorate in the age group (45-54) comes in third place, representing (20.0%), and the category of individuals working in Islamic banks (Tadhamon - Saba - Al-Kuraimi) in Aden Governorate in the age group (18-24) and the age group (55 and above) comes in the fourth and last place with a low percentage of (4.0%).

## 3. Distribution of the study sample by academic qualification:

Table (3) Distribution of Study Sample by Academic Qualification

Qualification	Frequency	Percentage %
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<b>Less than bachelor.</b>	4	8.0
<b>Bachelor.</b>	38	76.0
<b>Master.</b>	7	14.0
<b>Doctorate</b>	1	2.0
<b>Total</b>	50	100.0

Source: The output of SPSS

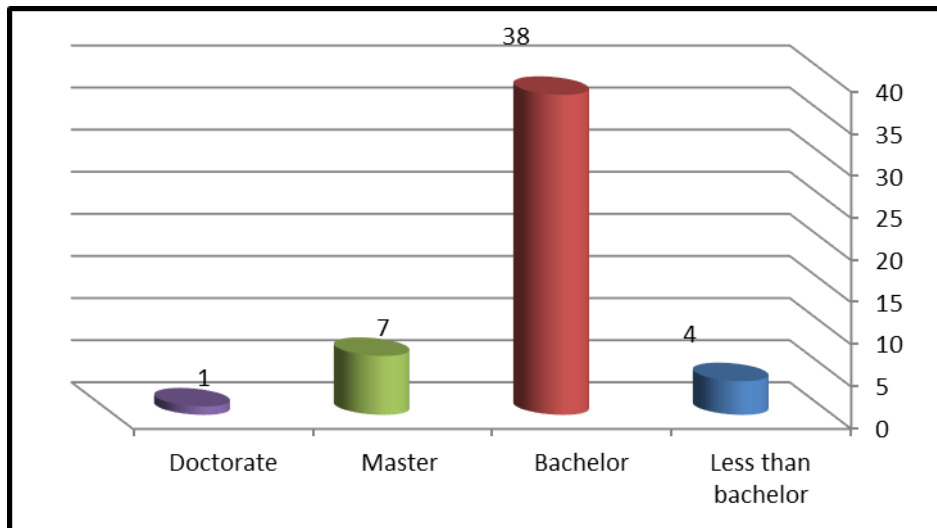


Figure (3) Relative Distribution of Study Sample by Academic Qualification  
Source: The output of SPSS

The above table No. (3) shows that individuals working in Islamic banks (Tadhamon - Saba - Al-Kuraimi) in Aden Governorate who hold a bachelor's degree ranked first by (76.0%), while individuals working in Islamic banks (Tadhamon - Saba - Al-Kuraimi) in Aden Governorate who hold a master's qualification ranked second with a percentage of 14.0%, while individuals working in Islamic banks (Tadhamon - Saba - Al-Kuraimi) in Aden Governorate have a qualification less than a bachelor's degree They ranked third (8.0%). While individuals working in Islamic banks (Tadhamon - Saba - Al-Kuraimi) in Aden Governorate who hold a doctorate degree ranked last with a percentage of (2.0%).

4. *Distribution of the study sample by type of Islamic financial product(s) used:*

Table (4) Distribution of Study Sample by Type of Islamic Financial Product(s) Used

Type of Islamic Finance Product(s) Used	Frequency	Percentage %
Profit and loss sharing (Musharaka, Mudaraba)	12	24.0
Asset-based financing (Murabaha, Ijarah, ... etc.)	10	20.0
Islamic Banking	19	38.0
Other	1	2.0
Profit and loss sharing (Musharaka, Mudaraba), and asset-based financing (Murabaha, Ijarah, ... etc.)	4	8.0

Profit and loss sharing (Musharaka, Mudaraba), Islamic Banking	1	2.0
Asset-based financing (Murabaha, Ijarah, ... etc), Islamic banking	3	6.0
Total	50	100.0

Source: The output of SPSS

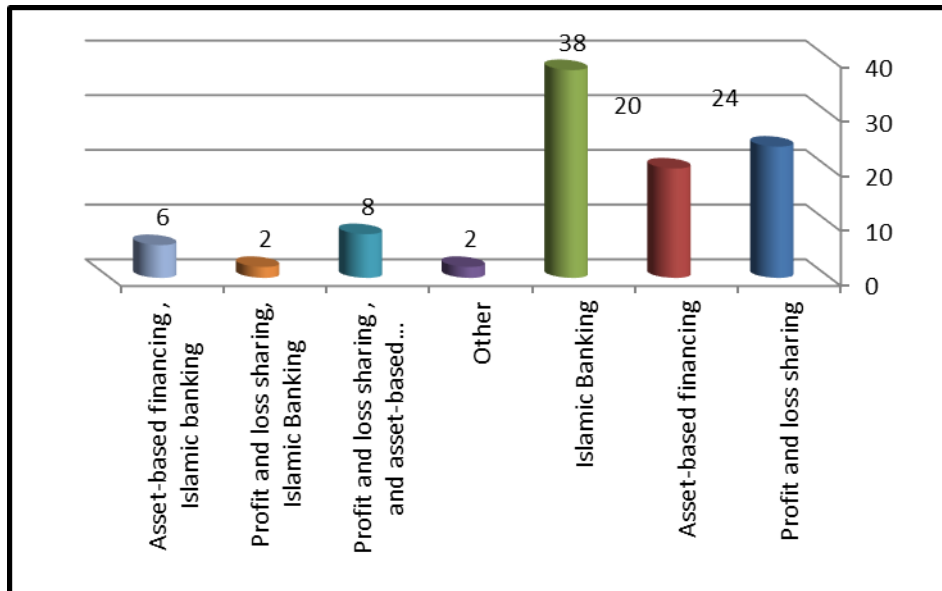


Figure (4) Relative Distribution of Study Sample by Type of Islamic Financial Product(s) Used  
Source: The output of SPSS

The above table No. (4) shows that individuals working in Islamic banks (Tadhamon - Saba - Al-Kuraimi) in Aden Governorate who used the financial product (Islamic banking services) ranked first by (38.0%), while individuals working in Islamic banks (Tadhamon - Saba - Al-Kuraimi) in Aden Governorate who use the financial product (profit and loss sharing (Musharaka, Mudaraba) ranked second with a percentage of 24.0%) while the individuals in Islamic banks (Tadhamon - Saba - Al-Kuraimi) in Aden governorate in those who use the financial product (Islamic banking services) ranked third by (20.0%), while individuals in Islamic banks (Tadhamon - Saba - Al-Kuraimi) in Aden governorate in those who use other financial products or financial producers ranked last with percentages ranging between (2.0%) and (8.0%).

### Conclusions:

In conclusion, the study affirms the significance of Islamic financing mechanisms, particularly profit and loss sharing and asset-based financing, in driving positive socio-economic outcomes. By promoting economic development, supporting sustainable projects, and enhancing financial inclusion, Islamic finance emerges as a valuable tool for advancing inclusive and sustainable development agendas. The details are as follows:

*Positive Impact of Islamic Financing:*

The study demonstrates that both Profit and Loss Sharing (PLS) and Asset-Based Financing (ABF) within Islamic finance have a positive influence on economic development, project sustainability, and financial inclusion.

*Economic Development:*

Profits and losses sharing and asset-based financing contribute significantly to economic development, fostering growth and prosperity in regions that implement these Islamic financing mechanisms.

*Project Sustainability:*

Projects funded through profit and loss sharing and asset-based financing exhibit higher levels of sustainability, indicating the effectiveness of Islamic finance in supporting long-term project success.

*Financial Inclusion:*

Islamic financing mechanisms promote financial inclusion by expanding access to financial services through ethical and participatory frameworks such as profit and loss sharing and asset-based financing.

*Policy Implications:*

The findings suggest that policymakers and financial institutions can leverage Islamic finance principles to enhance economic development, promote sustainable projects, and improve financial inclusivity within communities.

*Practical Applications:*

The study offers practical insights for practitioners in the financial industry on how to design and implement financial products and services that align with Islamic finance principles for sustainable and inclusive development.

*Future Research Directions:*

The positive outcomes of this study highlight the need for further research into the broader impacts of Islamic finance on various aspects of socio-economic development. Future studies could explore the scalability and adaptability of Islamic financing models in different contexts.

*Global Relevance:*

The study underscores the global relevance of Islamic finance as a viable alternative financial system that can contribute to achieving sustainable development goals and fostering inclusive economic growth.

More specifically, the conclusions are as follows:

1. Islamic financing by Islamic banks (Tadhamon, Saba, and Al-Kuraimi) in the Aden Governorate affects the economic development of Yemen.

2. Profit and loss sharing financing provided by Islamic banks (Tadhamun, Saba, and Al-Kuraimi) in Aden Governorate has contributed to promoting entrepreneurship and innovation in Yemen.
3. Islamic financing for Islamic banks (Tadhamon, Saba, and Al-Kuraimi) in the Aden Governorate has contributed to economic development in Yemen compared to traditional financing methods.
4. Asset-based financing provided by Islamic banks (Tadhamon, Saba, and Al-Kuraimi) in the Aden Governorate, such as Murabaha and Ijarah, has contributed to stimulating investment in Yemen.
5. Asset-based financing provided by Islamic banks (Tadhamon, Saba, and Al-Kuraimi) in Aden Governorate supports the development of small and medium enterprises in Yemen.
6. Asset-based financing has contributed to promoting entrepreneurship and innovation in Yemen.
7. Asset-based financing of Islamic banks (Tadhamon, Saba, and Al-Kuraimi) in Aden Governorate has contributed significantly to the economic development of Yemen.
8. Islamic finance provided by Islamic banks (Tadhamon, Saba, and Al-Kuraimi) in Aden Governorate has a significant effect on the development of the Yemeni economy.
9. The profit and loss sharing offered by Islamic banks (Tadhamon, Saba, and Al-Kuraimi) in Aden Governorate has a significant effect on the development of the Yemeni economy.
10. The existing financing provided by Islamic banks (Tadhamon, Saba, and Al-Kuraimi) in Aden Governorate has a significant effect on assets in the development of the Yemeni economy.

### **Recommendations:**

In general, the recommendations may be classified as follows:

#### *Policy Integration:*

Policymakers should consider integrating Islamic finance principles, such as profit and loss sharing and asset-based financing, into national financial frameworks to promote sustainable economic development and enhance financial inclusivity.

#### *Capacity Building:*

Financial institutions and regulatory bodies should focus on capacity building and training programs to enhance understanding and implementation of Islamic financing mechanisms among practitioners and stakeholders. Capacity-building initiatives for financial institutions or creating regulatory frameworks for Islamic finance may be adopted on the strategic basis.

*Research Continuation:*

Continued research is essential to deepen the understanding of the long-term impacts of profit and loss sharing and asset-based financing on economic development, project sustainability, and financial inclusion.

*Cross-Sector Collaboration:*

Encouraging collaboration between the public and private sectors, academia, and civil society can facilitate the adoption of Islamic finance practices and foster innovation in financial services tailored to local needs.

*Monitoring and Evaluation:*

Establishing monitoring and evaluation mechanisms to track the performance and impact of projects funded through Islamic financing can help ensure transparency, accountability, and the achievement of desired outcomes.

*Inclusive Policies:*

Policies should be designed to promote financial inclusivity by removing barriers to access and encouraging the participation of marginalized communities in the financial system through Islamic finance instruments.

*Knowledge Sharing:*

Encouraging knowledge sharing and exchange of best practices among countries and regions that have successfully implemented Islamic finance principles can facilitate their adoption in new contexts.

*Regulatory Frameworks:*

Developing clear regulatory frameworks that support the implementation of Islamic finance products and services can create a conducive environment for their growth and expansion.

*Social Impact Assessment:*

Conducting social impact assessments of projects financed through Islamic mechanisms can help evaluate their effectiveness in promoting sustainable development, project sustainability, and financial inclusion.

By implementing these recommendations, stakeholders can leverage the potential of Islamic financing to drive inclusive economic growth, support sustainable projects, and enhance financial inclusivity, ultimately contributing to broader socio-economic development goals.

Specifically, based on the ground study of the banks associated with this study, the recommendations may be furnished in the following manner:

Significantly enhance the role of Islamic finance and asset-based financing provided by Islamic banks (Tadhamon, Saba, and Al-Kuraimi) in Aden Governorate in order to achieve economic development in Yemen.

1. The need to continue to enhance the profit and loss sharing financing provided by Islamic banks (Tadhamon, Saba, and Al-Kuraimi) in Aden Governorate to contribute to promoting entrepreneurship and innovation in Yemen.
2. Continue to support Islamic financing for Islamic banks (Tadhamon, Saba, and Al-Kuraimi) in the Aden Governorate to achieve economic development in Yemen compared to traditional financing methods.
3. Support asset-based financing, such as Murabaha and Ijarah, provided by Islamic banks (Tadhamon, Saba, and Al-Kuraimi) in the Aden Governorate to contribute to stimulating investment in Yemen.
4. Supporting asset-based financing for Islamic banks (Tadhamon, Saba, and Al-Kuraimi) in Aden Governorate for the development of small and medium enterprises in Yemen.
5. Enhancing the role of asset-based financing provided by Islamic banks (Tadhamon, Saba, and Al-Kuraimi) in Aden Governorate to contribute to promoting entrepreneurship and innovation in Yemen.

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