

THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

Sharia-Compliant Sacco Services and Financial Performance of Small and Medium-Sized Enterprises in Nairobi City County, Kenya

Adow Mohamed Sheikh

Post graduate Student, Department of Accounting and Finance,
Kenyatta University, Kenya

Dr. Ambrose Jagongo

Senior Lecturer, Department of Accounting and Finance, Kenyatta University, Kenya

Abstract:

Saving and Credit Cooperative societies (SACCOs) are basis of monetary provisions helping entrepreneurs and other upcoming industries connect to banking facilities and other services. They provide monetary provisions to low-income earners who are self-employed. On the other hand, sharia-compliant SACCOs have obtained considerable importance in the modern globe on the foundation of stipulation of loans without interest together with the sharing of losses and profits via the doctrine of profit-sharing (Mudharaba) and joint-venture (Musyaraka). Although numerous researches have been done on areas of Islamic banking, few researches have explored the role of sharia-compliant SACCOs on SMEs in Kenya. Therefore, the motive of this study was to explore the effect of sharia-compliant SACCO services and monetary achievements of SMEs within Nairobi City County, Kenya. The survey was to be informed by four objectives namely; to determine the effect of credit services, training services, banking services and saving services by sharia-compliant SACCOs on financial performance of SMEs in Nairobi City County, Kenya. The study was to be based on three theories namely; financial intermediation theory, credit access theory and the saving culture theory. The project has utilized a descriptive research plan in establishing the effect of sharia-compliant SACCO services on financial performance of SMEs in Nairobi city county, Kenya. The target population was 300 SMEs that operate within Nairobi City County who are clientele of sharia-compliant SACCOs. Utilizing cluster sampling, the survey has adopted a total of 90 participants from the SME proprietors. The researcher collected primary data utilizing closed questionnaires as the research instrument. The data was obtained by using drop and pick later method and followed it via telephone calls. The collected data was summarized, coded, tabulated and analyzed using SPSS. The study derived the mean, frequencies and percentages from the data analysis for each variable. Findings of the study were obtained by use of charts, histograms and bar graphs where appropriate. The results of the study are believed to add up to existing body of knowledge in the field of SMEs business development as well as in Islamic banking in Kenya. Regression analysis was used to establish the relationship between SACCO services and financial performance of SMEs in Nairobi City County. The study concluded that the services provided by sharia-compliant SACCOs have significantly enhanced the financial performance of SMEs in Nairobi City County. The study recommended sharia-complaint SACCOs and other financial institutions to do frequent trainings for SME owners so as to solidify their capacity, skills and knowledge.

Keywords: SACCO services, financial performance, Small and Medium Enterprises, Nairobi City County, Kenya

1. Introduction

1.1. Background of the Study

The idea of Savings and Credit Co-operative Society started in the year 1844 in a town called Rochdele, situated in Manchester, England. Subsequently, the same idea progressed internationally by way of financial relationship with different personality, reason and history. During 1864, the primary provincial credit society was founded by Raiffeisen in German to address the issues of countryside individuals. This is because those groups were well-thought-out as people who could not bank any reasonable amount of money in the banks as a result of being regarded as seasonal cash flows, very small as well as having shortages in terms of human resources. Since then, there was a quick growth in the cooperative society movement and there after the idea stretched across America, Asia and Europe from 1900 to 1930 (Tache, 2006).

In India, co-operative unions were introduced and reinforced by common business goals and needs. The first cooperative society was started in Punjab as early as 1891. The adoption of Cooperative Credit Societies Act, 1904, marked the beginning of cooperative movement in India. Initially, the primary objective of cooperative associations was to safeguard the interests of the poor farmers from private money lenders. They were generally wellbeing focused rather

than profit making institutions; also they were authorized groups by government. However, India in recent times has witnessed remarkable growth in regards to cooperative societies in terms of farming sector since 1947 to date (Mr. Pandey, 2008).

In Africa, farmers encouraged and listed cooperative associations around the last part of 1950s for pyrethrum, coffee and tea as cash-crops. Maingi (2014) pointed out that emerging result-oriented groups within Ghana have since then been generally adopted across the African countries. In Tanzania, Cooperative associations drew their memberships from the home-grown community or a related employer (Klinkhamer, 2009). Their groups have similar ecological area, community, employer or other relations. The affiliates are the limited beneficiaries, decision makers as well as savers and their funds originate from affiliates' savings and deposits (Shrestha 2009). Saving and Credit Cooperative members recorded high upsurge of assets, income, money spent on education, improved housing and food consumption as well as reduction in health expenditures compared to non-affiliates (Sharma, 2005).

In Kenya, formal co-operative societies started taking shape at the time of colonial when the European settlers established Lumbwa Cooperative Society in 1908. During those days, Africans were not allowed to form cooperative associations of their own until after 1930s. In 1931, Kenya Cooperative Creameries (KCC) was established and registered and was followed shortly in the same year by the Kenya Farmers Association (KFA). The SACCOs created pool of funds from members' savings to maintain the growth of their assets. SACCOs also obtained loans from other monetary establishments among them commercial banks (Muchemi, 2005).

Today, micro-investments and loan Co-operative associations are part and parcel of the Government financial plan intended to create income generating opportunities mainly in the rural areas of the country. SACCOs maintain enough capacity as well as prospects to conquer clients in parts auspiciously seemed unappealing to the banks such as the rural and underprivileged arenas. The SACCOs currently contribute immensely over 40 percent of Kenya's GDP and it is estimated that not less than half of Kenyans directly or indirectly derive their livelihoods from co-operative movements (Branch, 2005). This survey focuses on the contributions that SACCOs have made towards financial growth of SMEs in Nairobi City. Particular emphases are given to sharia-compliant SACCOs. The products those SACCOs offer are the independent variables while financial performance of SMEs is the dependent variable.

1.2. Statement of the Problem

Small and Medium-sized Enterprises (SMEs) were identified as key in regards to socio-economic development in developing nations. Since recent past, SMEs have kept on being presumptuously significant in Kenya's economy. The sector commitment to the Gross Domestic Product (GDP) expanded shooting from 14% in 1993 to more than 18% in 1999. Currently the contributions to the economy by this sector maintained roughly 25% (Economic survey, 2012).

The annual growth in sales of SMEs rose from 35% in 2011 to 51% in 2013. This has resulted in informal job creation in the country. By providing attractive job opportunities, SMEs have raised the purchasing power of Kenyans. In 2014, the sector registered an annual growth in sales of 60%. The financial performance of SMEs continued to grow over the years with 2015 realizing an annual growth of 72% in sales (Jacinta Tresa, Ismail, 2018). The research question is therefore what contributes to this unprecedented growth

Jairus Opati (2015) did a research on the contribution of SACCOs to the growth of entrepreneurial business in Kenya (a case survey of Mwalimu National SACCO). His findings clearly illustrated the importance of SACCOs in providing credit facility to facilitate growth of enterprises. However, Opati's survey was general since it was covering all entrepreneurial businesses in Kenya. This study is specific since it has focused on SMEs only.

JKUAT (2015) conducted a survey on the effects of funding source on the expansion of SMEs in Kiambu County, Kenya. This survey suggested that a significant growth was realized by SMEs when they utilized loans from SACCOs. However, it was skewed since it focused only on the loans provided by SACCOs. This is because SACCOs don't provide loans only to their members. This study will breach this gap because it has covered all the products provided by Sharia-compliant SACCOs.

Another research that is related to this study was carried out by Sadhana Sury (2017). This research was done on the influence of microfinance credit on recital performance of small-sized businesses within Nairobi City County, Kenya. The findings of this survey revealed that SMEs relied heavily on the products offered by SACCOs in Nairobi. Sadhana suggested that several SMEs have expanded their operations as a result of receiving affordable products from these SACCOs. However, this survey didn't address the needs of Muslim SMEs who are not willing to borrow loans with interest. This study focused on Sharia-compliant SACCOs which are open to all SMEs in Kenya and provide interest free credit facilities among other products.

1.3. General Objective

To investigate the effect of financial services by sharia-compliant SACCOs on financial performance of SMEs in Nairobi City County, Kenya.

1.3.1. Specific Objectives

- To determine the effect of credit services by Sharia-Compliant SACCOs on financial performance of SMEs in Nairobi City County, Kenya
- To establish the effect of training services by Sharia-compliant SACCOs on financial performance of SMEs in Nairobi City County, Kenya
- To determine the effect of banking services by sharia-compliant SACCOs on financial performance of SMEs in Nairobi City County, Kenya

- To establish the effect of saving services by Sharia-compliant SACCOs on financial performance of SMEs in Nairobi City County, Kenya

2. Literature Review

2.1. Theoretical Review

This study is supported by the following three theories:

2.1.1. Financial Intermediation Theory

This theory suggests that financial intermediaries lower costs that are associated with transactions as well as the costs associated with information asymmetries between lenders and borrowers. According to the theory, intermediaries have created favorable inter-linkages between lenders and borrowers as a result of capitalizing on this reality. This has led to the mushrooming of small scale businesses in western countries (Alkerlof 1970) and (Blinder and Bernanke, 1992). Financial mediators ease transaction costs and information asymmetries that come up from an information failure among lenders and borrowers. Financial mediators therefore help to make the functioning of market efficiency and any other aspects that may impact on the volume of loan directed via financial intermediaries (Spance, 1973).

Elements that properly clarify this text of the study are the financial mediation, liquidity magnitude and capacity. Element number one stresses on the financial mediators' liquidity provision. The other elements emphasize on financial mediators capacity to change the risk features of the entity resources. In both circumstances, monetary intermediation reduces the cost of directing resources between lenders and borrowers, resulting to a supplementary proficiency and effective resource allocation. Gertler and Bernanke (1995) explored liquidity provision and the conversion of non-liquid properties into liquid obligations by financial intermediaries. Financial ideal is a request pledge agreement, nevertheless it has an adverse symmetry in that all savers may fear and take out their deposits instantly safe for few who would wish to keep the savings in their accounts given that they are not worried about the bank letting them down (Adolfson, 2002).

The supporters of this concept clarify that the current theories of monetary intermediation are on the go since market imperfections inhibit investors and savers from interchanging straight with each other in an ideal method. Financial intermediaries, especially SACCOs, fill this gap and breach information asymmetry between final investors and savers. This is because they facilitate the borrowing and saving of money among members hence guaranteeing sustainable financial intermediation (Blinder and Bernanke, 1992)

2.1.2. Credit Admission and Access Theory

This theory became the brain child of Stieglitz and Weiss (1981). They have given a ground for investigating financial market ineffectiveness. As pointed by Stieglitz and Weiss (1981) that information disproportionateness is rationale behind financial market imperfections in nations with developing economies. Other than the interests they obtain from loans, financial intermediaries are also concerned on the risks associated with such credits. Financial organizations mostly monitor and screen borrowers further effectively to ascertain their credit worthiness. They are focused to gather private information, taking the appropriate confidentiality precautions, in order to keep and manage cash and saving accounts safe. Financial institutions especially banks maintain highly tactical information on entity's expenditures including the techniques firms use to develop (Wilcox and Kashyap, 1993). In spite of this surplus of information and relations between bankers and companies, financial institutions especially banks are affected by informational irregularities such that progression of interest rates and prices are unable to clear credit market.

Lastly, non-equilibrium occurs with a marginal effect of a disappointed agent (Pinaki, 1998). Stieglitz and Weiss (1981) suggest that adversative range occur consequently credit rationing yet prevails if financial institutions are to request security. They contend that low-risk debtors hope to get a lesser rate of return. Always, there exists a mixture of collateral requirements and interest to avoid credit rationing occurring. (Russell and Jaffee, 1996).

This model therefore argues that the predominance stimulating method of strategically rotating loans in ranks is called symmetry allocation. SACCOs apportion provision of credits to members. This is because a member has to wait for at least one year before their savings and dividends mature. This will ensure a situation whereby some members save as others borrow, hence efficiently regulating the amount of funds available for the members and cushion from the SACCO any possible cash flow problems that may arise (Stieglitz and Weiss 1981).

2.1.3. The Saving Culture Theory

This theory emphasizes on the importance of developing saving culture by societies and communities. The power of saving and compounding interests is very helpful especially when done consistently for a long period of time. Low-income individuals in the society don't save and they spend their disposable income on food and other necessities. The obvious reason being those individuals only care about their daily survival because they are struggling with extreme financial crisis. Larger percentages of SME proprietors are low-income individuals. SACCOs have come to breach this gap. One of the primary objectives of any SACCO is to inculcate culture of saving amongst their affiliates. They condition their members to save certain amount of money before they become eligible for credits. The amount of savings also determines the size of credits advanced to members. This theory is therefore vital since it explains the benefits SMEs can reap from their savings and the good relationships maintained with the SACCOs (Bernanke and pelrine, 2005)

2.2. Empirical Review

The following studies which were carried out by earlier researchers support this research study.

2.2.1. Contribution of SACCOs to the Growth of Entrepreneurial Business

Jairus Opati (2015) carried out a research on the contribution of SACCOs to the growth of entrepreneurial business in Kenya (a case survey of Mwalimu National SACCO). His findings clearly illustrated the importance of SACCOs in providing credit facility to facilitate growth of enterprises. The survey sampled members of Mwalimu SACCO Business loans department which is tasked with disbursement of both loans and training to members purely for business ventures. In the survey, 66 percent of those who participated happened to be the gender male making the other participants, 34 percent to be of the female folks.

The Survey findings revealed that most members of Mwalimu Sacco have been in the business for 16 years and above. Even though majority of members have been in the Sacco for more than 16 years, only 10% had been operating 48 entrepreneurial businesses for more than five years. This means majority started running businesses when the product was started in the last quarter of year of 2009 and concluded that entrepreneurship training is among the initiatives that can be instilled to improve knowledge and skills in private enterprise. However, Opati's survey was general since it was covering all entrepreneurial businesses in Kenya. This study is specific since it has focused on SMEs only

2.2.2. Effect of Funding Source on the Growth of Smes

KUAT (2015) carried out a survey examining the consequences funding source would have in the midst of the augmentation of SMEs in Kiambu County, Kenya. The survey suggested that a significant growth was realized by SMEs when they utilized loans from SACCOs. The survey sampled 60 SMEs that were operating within Kiambu County, Kenya. Findings on the effect of the Sacco loans on SMEs suggested a significant growth of SMEs. When funds from Saccos were utilized, SMEs were able to realize improved growth. The survey ascertained that the requirements needed from a business to be given a loan from a Sacco were not so stringent and as a result, SMEs got efficient funding from Saccos. It was evident that a funding source was pivotal as far as growth of SMEs was concerned. The Sacco loan can increase the growth of the SMEs through the increase in the employee numbers, the number of branches, the inventory and the number of products. However, this survey was skewed since it focused only on the loans provided by SACCOs. SACCOs do not provide loans only to their members. This survey will breach this gap because it has covered all the products provided by sharia-compliant SACCOs.

2.2.3. Effects of Small-Scale Loans on the Performance of Small-Sized Business Enterprises

Another research that is related to this survey was carried out by Sadhana Sury (2017). This research was done on the impact of microfinance credit on the recital performance of SMEs in Nairobi city county, Kenya. The results of this survey found out that SMEs relied heavily on the products offered by SACCOs in Nairobi City County, Kenya. Sadhana suggested that several SMEs have expanded their operations as a result of receiving affordable products from SACCOs in Nairobi City County, Kenya. The researcher issued a total of 59 questionnaires and only managed to get 50 questionnaires filled representing 85% response rate which was deemed appropriate for the survey. After critical examination, advancing has shown 74.1% borrowed credits sourced by way of rotating investment-wise associations. This typically showed member associations relied heavily on financial inter-linkages if their business is to prosper effectively. However, this survey didn't address the needs of Muslim SMEs who are not willing to borrow loans with interest. This study focused on Sharia-compliant SACCOs which are open to all SMEs in Kenya and provide interest-free credit facilities among other products.

3. Research Methodology

3.1. Research Design

This study employed descriptive research design. The motive of descriptive survey research design is to determine a research problem by seeking the present status of the populace and account the way things are (Mugenda & Mugenda, 2003). Because of the accuracy of design, it will enable the researcher to get real effects of financial services of sharia-compliant SACCOs on the financial recital of small-scale businesses in Nairobi City County.

3.2. Target Population

As pointed by Mugenda and Mugenda (2003), population denotes to a whole cluster of individuals, events or objects demonstrating similar features. The target population of the survey is 300 registered SMEs who are clients of Sharia-compliant SACCOs.

3.3. Sampling Technique

The survey utilized simple random sampling technique. The target sample of the survey is 90 registered SMEs within Nairobi City County. The researcher felt simple random sampling a suitable technique because it will eliminate potential human biasness in selecting the participants to be utilized during sampling.

3.4. Data Collection Technique

The researcher collected primary data utilizing closed questionnaires as the research instrument. The data was obtained by using drop and pick later method and followed it via telephone calls. Data collection started with clearance from the University school of Graduate and obtaining permission sourced through the relevant department of government (National Council of Science and Technology). This was followed by pre-visit to all sampled SMEs proprietors so as to seek appointment on when the questionnaires will be administered.

3.5. Data Analysis

The process of data analysis started with identifying, editing and correcting errors such as spelling mistake or unanswered questions by the participants or any other mistakes made during the data collection. The data was prepared and coded. The analyzed data was presented in percentages, frequencies, pie charts and bar graphs as per the survey objectives. The data was analyzed by avoiding biasness or subjectivity. Multiple regression model was used to determine the effect of SACCO services on financial performance of SMEs in Nairobi City County, Kenya. The model used is shown as below

$$Y=B_0+B_1X_1+B_2X_2+B_3X_3+B_4X_4+E$$

Where Y=financial performance of SMEs

B₀= Regression constant term

B₁-B₄=Coefficient of correlation

X₁=Credit services

X₂=Training services

X₃=Banking services

X₄=saving services

E= error term

4. Research Results

4.1. Credit Services and Financial Performance of SMEs

Objective number one of this study was to determine the effect of credit services by sharia-compliant SACCOs on financial performance of SMEs in Nairobi City County, Kenya. The respondents were asked to enumerate their level of agreement or disagreement with the statement on likert-scale. The findings showed that credit services have greatly improved the financial performance of the SMEs who are customers of the sharia-compliant SACCOs. Members of the sharia-compliant SACCOs can easily access overdraft services, loan facilities, enjoy flexible repayment period of loans and have the liberty to borrow loans without interest. The respondents however, gave their dissenting views on loan processing period. They held that the SACCOs take a considerable amount of time to process loan facility. They also opined that the SACCOs require more than one week notification before they start processing credit facilities to members. On average however, the findings showed that credit services of sharia-compliant SACCOs have relatively improved the financial performance of SMEs in Nairobi City County. This findings are in agreement with Said, A.A (2019) who proposed that bank loans enhanced the financial performance of SMEs in Nigeria.

4.2. Training Services and Financial Performance

Objective number two was to establish the effect of training services by Sharia-compliant SACCOs on financial performance of SMEs in Nairobi City County, Kenya. The respondents were asked to enumerate their level of agreement or disagreement with the statement on likert-scale. The findings revealed that training services have greatly improved the financial performance of the SMEs who are customers of sharia-compliant SACCOs in Nairobi City County. Sharia-compliant SACCOs provide regular training for members to a good extent. The SACCOs also maintain a training package for SME proprietors and this provides a convenient window for SME owners. The respondents believe that this training package have improved their performance to a fairly good extent. However, the SACCOs hold educational and open days for members to a lower extent. In a nutshell, training services has greatly improved the financial performance of SMEs in Nairobi City County. These findings are in tandem with Rabie et (2016). They are on the view that training services for entrepreneurs are key component for achieving success for SMEs in South Africa.

4.3. Banking Services and Financial Performance

Objective number three was to determine the effect of training services by Sharia-compliant SACCOs on financial performance of SMEs in Nairobi City County, Kenya. The respondents were asked to enumerate their level of agreement or disagreement with the statement on likert-scale. The findings revealed that banking services have greatly improved the financial performance of the SMEs who are customers of sharia-compliant SACCOs in Nairobi City County. Sharia-compliant SACCOs offer both BOSA and FOSA services to a great extent. The SACCOs also provide ATM services and have SMEs department. In addition, the SACCOs offer online banking services to a great extent. In general, banking services of sharia-compliant SACCOs have greatly improved the financial performance of SMEs in Nairobi City County. This findings agree with Formisano, Vincenzo, et al (2020) who hold that accessible banking services maintain constant cash flows and help SMEs honor their financial obligation thereby cushioning them from financial crisis.

4.4. Saving Services and Financial Performance

The fourth objective was to establish the effect of saving services by Sharia-compliant SACCOs on financial performance of SMEs in Nairobi City County, Kenya. The respondents were asked to specify their level of agreement or disagreement with the statement on likert-scale. The findings reveal that saving services have greatly improved the financial performance of SMEs who are customers of sharia-compliant SACCOs in Nairobi City County. Sharia-compliant SACCOs do not maintain current account only but they do have several other accounts which include deposit, saving and fixed accounts. The accounts of the members do not require minimum deposit for operation. Sharia-compliant SACCOs pay dividend to members on average extent. These findings show that saving services have enhanced, to a larger extent, the financial performance of SMEs who are customers of sharia-compliant SACCOs in Nairobi City County. The findings

showed that the SACCOs played a major role in encouraging SMEs to do more savings because they conditioned borrowings on loans. The more the SMEs save, the more money they will be eligible to borrow. This has enticed SMEs to adopt the culture of savings. The findings of this study are in agreement with Omondi, R. I., & Jagongo, A. (2018). They suggested that microfinance services such as savings have greatly influenced positively the financial performance of SMEs in Kisumu County, Kenya.

4.5. Regression Analysis

The researcher used multiple regression to establish the relationships between SACCO services and financial performance of SMEs in Nairobi City County. The findings below show the model summary, ANOVA and coefficient of regression

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.79	0.62	0.6	0.4
a. Predictors: (Constant), Credit services, Training services, banking services, saving services				

Table 1: Model Summary

According to the findings, coefficient of correlation R is 0.79. This shows a strong positive correlation between the dependent variable and independent variables. The coefficient of adjusted determination (adjusted R) is 0.60. This means that 60% of the changes of dependent variable (financial performance) can be explained by the independent variables (Credit services, Training services, Banking services and saving services). The residual value of 40% standard error can be explained by other factors beyond this study.

Model	Sum of Squares	Df	Mean Square	F Sig.
Regression	3.364	4	0.841	3.185.018b
Residual		20.068	76	0.264
Total	23.432	80		
a. Dependent Variable: Financial performance				
b. Predictors: (Constant), Credit services, Training services, banking services, saving services.				

Table 2: ANOVA

According to the above table, Fcalculated is 3.185 while Fcritical is 1.530. This means that Fcalculated is greater than Fcritical (3.185>1.530). This indicates that the overall regression model is significant for the study. The P value is 0.018. Since this P value is less than 0.05 (0.018>0.05) then this shows that at least one variable significantly affects the overall performance of SMEs in Nairobi City County.

Model	Unstandardized Coefficients	Standardized Coefficients	t	Sig.	
		B	Std. Error	Beta	
Constant		4.76	0.75		1.726.008
Credit services	.84	0.16	0.253	1.101.004	
Training services	.65	0.35	0.276	1.16 .009	
Banking services	.87	0.13	0.261	.979.001	
Saving services		0.56	0.44		0.045 .224.003
a. Dependent Variable: Financial performance					

Table 3: Coefficient of Regression

According to the above table, the resultant regression equation is $Y=4.76+0.84X_1+0.65X_2+0.87X_3+0.56X_4$
Where Y=financial performance of SMEs

X1=Credit services

X2=Training services

X3=Banking services

X4=saving services

According to the findings in the above table, the financial performance of SMEs is 4.76, holding all other factors constant. A unit increase in credit services of sharia-compliant SACCOs will increase the financial performance of SMEs by 0.84, holding all other factors constant. A unit increase in training services of sharia-compliant SACCOs will increase the financial performance of SMEs by 0.65, holding other factors constant. A unit increase in banking services of sharia-compliant SACCOs will increase the financial performance of SMEs by 0.87, holding other factors constant. A unit increase in saving services of sharia-compliant SACCOs will increase the financial performance of SMEs by 0.56, holding other factors constant. The findings also show that the independent variables had a P value of less than 0.05. This shows that sharia-compliant SACCO services have significantly influenced the financial performance of SMEs in Nairobi City County.

5. Conclusions

The study concludes that products offered by sharia-compliant SACCOs have strongly and positively impacted on the financial performance of SMEs. These products are credit services, training services, banking services and saving services. The study concludes that these services have greatly improved the sales, profit margin, employees' skills and knowledge, loan accessibility and saving culture of the SMEs. The SACCOs also provided convenient banking services through their ATMs and online banking sections. In general, the study concluded that the services provided by sharia-compliant SACCOs have significantly enhanced the financial performance of SMEs in Nairobi City County, Kenya.

6. Recommendations

The study recommends that SMEs should make savings for a period of not less than one year before they borrow loans. This will help SMEs become eligible for credits offered by sharia-compliant SACCOs. The study also recommends sharia-complaint SACCOs and other financial institutions to do frequent trainings for SME owners so as to solidify their capacity, skills and knowledge. This will help the SME owners to apply prudent financial management skills and expand their business enterprises. The study recommends SACCOs to roll out their existing banking services such as BOSA and FOSA to their other branches since most of these services are concentrated in their headquarters only. The SACCOs should introduce products that are competitive, encouraging and highly innovative such as buying of shares in the Nairobi stock exchange. SACCOs should capitalize on the current technological advances of the world by introducing digital savings and borrowing of funds. SACCOs should deposit reserves in commercial banks to cushion them from financial crisis. SACCOs should do regular trainings for SMEs and hold annual events where SME owners are educated on financial literary and prudent use of financial resources. The study recommends that the government should cap the interest rate loan from the current 14% to 6% since many SMEs are unable to acquire the loan because of the high interest rate. The government, through an act of parliament, should introduce interest free loans specifically designed for SMEs during their initial business start-ups. The government should increase county government budget allocations and then condition the counties to set aside some funds to help empower upcoming SMEs. This will help many young entrepreneurs access loans easily. The government should introduce curricula courses geared towards financial management to SMEs owners and prudent use of resources. The government should encourage and create an avenue where young people can form and register groups through which they will be eligible to acquire loans from financial institutions such as SACCOs. The government should embrace Islamic mode of financing tailored towards encouraging Muslim members to take loans in large numbers and hence overcome the current situation where Muslim members are locked out of borrowing money from financial institutions because of interest. The government should hold annual events and conferences where the spirit of entrepreneurship is communicated to the public and best performing SMEs are awarded

7. References

- i. Adolfson, M. (2002). Optimal monetary policy delegation under incomplete exchange rate pass-through, SSE/EFI Working Paper Series in Economics and Finance: 477.
- ii. Akerlof, G. (1970). The market for lemons: quality uncertainty and the market mechanism, *Quarterly Journal of Economics*: 48:488-500.
- iii. Approaches. Nairobi: Nairobi African Centre for Technology Studies
- iv. Awogbenle, A. Cyril, and K. Chijioke Iwuamadi. 'Youth unemployment: Entrepreneurship development programme as an intervention mechanism.' *African Journal of business management* 4.6 (2010): 831-835.
- v. Bernanke, B. S. & Gertler, M. (1995). Inside the black box: the credit channel of monetary policy transmission, *The Journal of Economic Perspectives* 9: 27-48.
- vi. Bernanke, S. & Blinder, S. (1992). The federal funds rate and the channels of monetary transmission, *The American Economic Review*: 82:90-92.
- vii. Branch, B. (2005). Kenyan Government Develops First CU Regulation with WOCCU Support. Madison: WI, USA, World Council of Credit Unions.
- viii. Claus, I. & Smith, C. (1999). Financial intermediation and the monetary transmission mechanism, *Reserve Bank of New Zealand Bulletin*, 62, 4-6.
- ix. Dvoulety, Ondrej 2019. Development of entrepreneurial activity in the Czech Republic over the years 2005-2017. *Journal of Open Innovation: Technology, Market, and Complexity*, 5(3), p.38.
- x. Formisano, Vincenzo, et al. 'Banking services for SMEs' internationalization: evaluating customer satisfaction.' *The TQM Journal* (2020).
- xi. Imran Tahir, (2011). Islamic Investment behavior; *International journal of Islamic Finance Management in Middle East*.
- xii. Ismail and Abdul Ghafar (2010). Growth and sustainability of Islamic finance practice in Tanzania. *Islamic Banks and Wealth Creation*. Research Paper No. 9/2010
- xiii. Jairus Opati (November, 2015). Contribution of SACCOs to the growth of entrepreneurial business in Kenya (a case survey of Mwalimu National SACCO). MSc thesis, University of Nairobi
- xiv. Jomo Kenyatta university of agriculture and technology (April 2015). The effect of funding source on the growth of SMEs in Kiambu County, Kenya. *International journal of management and commerce innovations* ISSN 2348-7585(online).
- xv. Kashyap, K. Stein, C. and Wilcox, W. (1993). Monetary policy and credit conditions: Evidence from the Composition of External Finance, *The American Economic Review*: 83, 78-98
- xvi. Kombo, D.K. & Tromp, D.L.A. (2006). Proposal and Thesis Writing. Nairobi: Pauline's

- xvii. Kothari, C.R (2008). *Research Methodology Methods and Techniques*, New Delhi, Vikel publications.
- xviii. Kundid, A. (2007). Credit rationing in financial distress: Croatia SMEs' finance approach, *International Journal of Law and Management*, Faculty of Economics, University of Split, Croatia
- xix. Leković, B. and Marić, S.M., 2015. Measures of small business success/performance–importance, reliability and usability. *Industrija*, 43(2).
- xx. Maingi, M. S. (2014). Factors Affecting the Financial Performance of SACCOs in Kenya. *International Journal of Business and Management*, Vol. 2 Issue 8, ISSN 2321-8916
- xxi. Mangieri T. *African cloth, export production and second-hand clothing in Kenya*. Routledge; 2019 Jun 4.
- xxii. Mugenda, O. & Mugenda, A. (2003). *Research Methods: Quantitative and Qualitative*
- xxiii. Mugochu, M. (2013). Relationship between access to credit and financial performance of small and medium enterprises in Kiambu, Kenya, Unpublished MBA Project, University of Nairobi.
- xxiv. Omondi, R. I., & Jagongo, A. (2018). Microfinance services and financial performance of small and medium enterprises of youth SMEs in Kisumu County, Kenya. *International academic journal of economics and finance*, 3(1), 24-43.
- xxv. Ondieki, A. N., C. Okioga, D. K. Okwena, and A. Onsase. 'Assessment of the effect of external financing on financial performance of savings and credit cooperatives in Kisii central district, Kenya.' (2017).
- xxvi. Orodho J. A. (2009). *Techniques of writing research proposals and reports in education and Orodho J. A. (2009). Techniques of writing research proposals and reports in education and Pandey, I. M. (2008). Financial Management*, New Delhi, India: Vikas publishing House
- xxvii. Pinaki, B. (1998). Formal and Informal sector interaction in rural credit markets, *Journal of Development Economics*, 56:265-280.
- xxviii. Publications Africa.
- xxix. Rabie, C., Cant, M.C. and Wiid, J.A., 2016. Training and development in SMEs: South Africa's key to survival and success. *Journal of Applied Business Research (JABR)*, 32(4), pp.1009-1024.
- xxx. Rintaugu, E. M. (2005). An evaluation of factors affecting non-recovery of debt owed to National Housing Corporation. MBA thesis, Moi University Eldoret, Kenya.
- xxxi. Sadhana Sury (2017). The effect of microfinance credit on the performance of small and medium enterprises in Nairobi city county, Kenya. MBA research project, United States International University-Africa. Social sciences. Kenzaj publishers, Nairobi, Kenya.
- xxxii. Saidi, A.A. 2019. Bank loans and small medium enterprises' (SMES) performance in Lagos, Nigeria. *Ilorin Journal of Human Resource Management*, 3(1), pp.52-61.
- xxxiii. Tache G.M., (2006). Sustainable Sacco Development, Rural Savings Promotion & Enhancement of Enterprise Development (Rural Speed), USAID/Uganda
- xxxiv. Yin, R. K. (2009). *Case survey research: Design and methods (4th Ed.)*. Thousand Oaks, CA: Sage
- xxxv. Yusuf, A. D. (2017). Youth business empowerment and entrepreneurship skills in Doguwa Local Government, Kano State, Nigeria. *KIU Journal of Social Sciences*, 3(1), 163-168.