

**SHARIA-COMPLIANT SACCO SERVICES AND FINANCIAL PERFORMANCE  
OF SMALL AND MEDIUM-SIZED ENTERPRISES IN NAIROBI CITY COUNTY,  
KENYA.**

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## DECLARATION

The underlined here is, exclusively, my unique effort that hasn't at all been submitted for any other level of education in this institution or any other institution for examination or academic purpose.

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## **DEDICATION**

This work is devoted to my beloved family associates led by my lovely father Mr. Mohamed and the whole folk associates for their prayers, endurance and support all through the process of this work.

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## OPERATIONAL DEFINITION OF TERMS

**Affiliations:** This is the state of being associated with an entity or a person so as to derive benefit.

**Back office services:** This is the section of an entity consisting of support personnel and administration who are not serving the clients directly. These services include record-keeping and maintenance, compliance regulation, accounting, settlements and clearance of loans and IT services.

**Check-off loans:** These are credits given to staff whose employers have engaged an arrangement with a financial institution to allow their staffs take loans. The employer will afterwards, on behave of the employees, process and submit the loan repayments straight to the financial institution.

**Credit worthiness:** This is the level to which an individual or an entity is deemed suitable to obtain loan from an individual or a financial institution, mostly on grounds of their consistency in paying back debt.

**Deposits:** A sum of money paid into cooperative society account for saving purposes.

**Financial performance:** This refers to the measure of successes or achievements obtained by a person or entity especially in money related terms.

**Financial services:** These are monetary services offered by financial institutions that encompass a comprehensive variety of industries that manage money.

**FOSA:** It is the segment of the SACCO that serve customers directly and offers affordable and basic banking services to meet the needs of the members.

**Halal:** lawful or permissible according to the teachings of Islamic religion.

**Information asymmetry:** This is the failure of information sequence which arises when a person to a financial deal has a higher material knowledge than the other person.

**Musyarakah:** a joint-venture between two interested parties sharing losses and profit.

**Mudharabah:** A system where the profit is shared among the lender and the borrower.

**Sharia:** Islamic law that is derived from the holly Quran and tradition of Prophet Mohamed (S.A.W) which guide how Muslims conduct their affairs including transaction and financial dealings.

**Compliant:** To conform and abide by a set down rules and regulation.

**Sharia-compliant:** producing or offering products or service in accordance to the doctrine of Islamic religion.

**Speculation:** Trading of assets in stocks or property with the hope of obtaining financial gain but mostly associated with a lot of risk.

**Nairobi City County:** Headquarter of Kenya; headquarter of most financial institutions including SACCOs and business hub



## **LIST OF ABBREVIATIONS**

**BOSA:** back office service activities

**FOSA:** front office service activities

**GDP:** gross domestic product

**KCC:** Kenya cooperative creameries

**KFA:** Kenya farmers association

**MBA:** Masters of Business Administration

**NGO:** Non-Governmental Organizations

**SACCOs:** savings and credit cooperative societies

**SMEs:** Small and medium-sized Enterprises

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## 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. The survey was to be informed by four objectives namely; to decide the effect of loan services, training services, banking services and saving services by sharia-compliant SACCOs on monetary recital of SMEs in Nairobi city county, Kenya, The survey was to be based on three conjectures namely; financial intermediation theory, credit access theory and the saving culture theory. The project has utilized an evocative research plan in establishing the effect of sharia-compliant SACCO services and monetary recital of SMEs. The target populace was 300 SMEs who are clienteles of sharia-compliant SACCOs. Utilizing cluster sampling, the survey has adopted a total of 90 participants from the SME proprietors. The survey collected primary data utilizing closed questionnaires as the research instrument. The data was obtained by using plunge and single out technique and followed it by way of calling. The collected data was summarized, coded, tabulated and analyzed using SPSS. The study derived the mean, frequencies and percentages for each variable. Findings of the survey were obtained by use of charts, histograms and bar graphs where appropriate. The results of the survey are believed to add up to existing framework of knowledge in the field of SMEs business development as well as in Islamic banking in Kenya. The relationships between SACCO services and monetary recital of SMEs was established through use of regression analysis. The survey concludes the services provided by sharia-compliant SACCOs have significantly enhanced the monetary recital of SMEs in Nairobi City County. The study recommends sharia-complaint SACCOs and other financial institutions to do frequent trainings for SME owners so as to solidify their capacity, skills and knowledge.

# **CHAPTER ONE**

## **INTRODUCTION**

This chapter brings in a backdrop to the survey, problem statement, study objectives, and question of survey as well as rationalization of the research survey and end with limitations of the suggested study.

### **1.1 Background of the Survey**

The idea of SACCOs started in the year 1844 in a town called Rochdale, 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 to the bank 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 alongside 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. Registration of cooperative society was carried out through an act of parliament to protect poor borrowers from excessive interest charges. They were generally wellbeing focused rather than profit making institutions; also they were

authorized groups with 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 1950 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, white settlers were prohibiting Africans to form cooperative associations of their own until after 1930s. In 1931, Kenya Cooperative Creameries (KCC) was established and registered. 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 seeming 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 in Nairobi City County. The products those SACCOs offer are the independent variables while financial performance of SMEs is the dependent variable.

### **1.1.1 Financial services of sharia-compliant SACCOs**

SACCOs are saving and Credit Co-operative Society associations of like-minded individuals whose objective is to stimulate general wellbeing and economic interests of its affiliates. Sharia-compliant SACCOs are co-operative associations who provide products and services according to the teachings and rules of Islamic religion. In Islam, a person is not allowed to benefit from lending money which means that earning interest on loan is not allowed. Consequently, majority of Muslims prefer to invest in sharia-compliant financial institutions that provide credit facilities without interest. The level of investment of Muslims depends on the degree to which financial institutions adhere to Islamic principles. Sharia law also forbids non-halal economic practices e.g. gambling and speculation (Imran Tahir, 2011).

The SACCOs provide a wide range of products and services which include interest-free loans, training services, banking services and saving services for members. They invest members' savings on halal business to earn profit and a little loan processing fee in the place of interest. The SACCOs charge a small amount of fee for processing the loan instead of the interest. This processing fee is valued at 1% of the loan taken or a maximum of Sh2,000 per month. Sharia-compliant SACCOs also deal in mortgage financing where the members are allowed to identify land or house and then the SACCO will buy the land on behalf of the members, do a markup and later sell to them (Ismail and Abdul Ghafar, 2010)

The first Sharia-compliant SACCOs were previously offering Back Office Service Activities (BOSA) facilities, mostly check-off credits. The establishment of Front Office Service Activities (FOSA) facilities has enhanced effectiveness in offering services to the members so as to satisfy their banking desires and other economic services to supplement products and services provided by the back office services. They have recently rolled out facilities like processing of salaries, operational savings on current accounts, Automated Teller Machine (ATM) services, electronic money transfer and mobile banking. Membership of these SACCOs is open to all Kenyans of diverse backgrounds who prefer ethical financial services guided by Islamic principles. Members can borrow as much as thrice of their savings and dividends once it matures for a period of not less than one year with a flexible repayment period and with no interest on the loan facilities (Ismail, 2010).

### **1.1.2 Financial performance of SMEs**

SMEs are upcoming-small sized enterprises that sustain revenues, employees, or assets below a certain level and they vary among countries and industries. SMEs can effectively take control of their output and market much more than large associations. This is because

the proprietor is mostly in a position to scrutinize the quality of goods and fix all issues thus minimizing risk and crisis at early stage. Small business proprietors are able to contact prospective clients straight and interact with them freely. Because of digital uprising, advertising cost can efficiently be reduced. A lot of cost effective and affordable platforms are additionally available for small-sized businesses which they can easily venture into. This has greatly minimized their overall cost and increased their profit margin (Kundid, 2007).

The fact that SMEs can rapidly act in response to the changes in marketplace cushions them from unfavorable environmental conditions. They don't have official hierarchies which lead to slow in process of decision making. In fact, if the proprietor is convinced that the opportunity outweighs the challenges he/she can facilitate decision making quickly since he/she is his/her own boss. This has given SMEs gorgeous opportunity to attract a lot of customers and hence enhanced their financial performance (Muchugu, 2011).

## **1.2 Statement of the Problem**

Small, medium-sized enterprises (SMEs) were identified as key in regards to socio-economic as well as political development among the nations with developing economies as well as the ones with developed economies. Since recent past, SMEs have kept on being presumptuous as a significant part in Kenya's economy. The sector commitment to gross domestic roduct (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, SMEs registered an annual growth in sales of 60%. The financial recital of SMEs and growth sustained as years goes by 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 survey is specific since it has focused on SMEs only.

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

Another research that is related to this survey was carried out by Sadhana Sury (2017). This research was done on persuasion of micro-finance loan on monetary recital of small-sized businesses within Nairobi. This survey revealed 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. However, this survey didn't address the needs of Muslim SMEs who are not willing to

borrow loans with interest. This survey focused on Sharia-compliant SACCOs which are open to all SMEs in Kenya and provide affordable credit facilities among other products.

### **1.3 Objectives of the Survey**

#### **1.3.1 General objective**

To look into the consequences of financial services by sharia-compliant SACCOs on monetary recital of SMEs in Nairobi City County, Kenya

#### **1.3.2 Specific objectives**

- i. To settle on the outcome of loan services by Sharia-Compliant SACCOs on monetary recital of SMEs.
- ii. To institute effect of training services by Sharia-compliant SACCOs on monetary recital of SMEs in Nairobi City County, Kenya
- iii. To find out effect of banking services by sharia-compliant SACCOs on monetary recital of SMEs in Nairobi City County, Kenya
- iv. To establish the effect of investments services by Sharia-compliant SACCOs on monetary performance of SMEs in Nairobi City County, Kenya

### **1.4 Research Questions**

- i. What is the consequence of loan services by Sharia-compliant SACCOs on monetary recital of SMEs?
- ii. What is the effect of training services by Sharia-compliant SACCOs on monetary recital of SMEs?
- iii. What is the result of banking provisions by Sharia-compliant SACCOs on monetary recital of SMEs?

- iv. What is the end product of savings provisions by Sharia-compliant SACCOs on monetary recital of SMEs?

#### **1.4 Implication of the Study Survey**

The survey will be of benefits to the following entities list below:

##### **1.4.1 Academicians and Researchers**

The survey will be of benefit to present-day framework of acquaintance in regards to maters sharia-complaint SACCOs and financial performance of SMEs. The survey would go about as a wellspring of observational writing that future analysts can refer to in their investigations as it recommends findings for additional exploration.

##### **1.4.2 Management of Sharia-compliant SACCOs**

The survey would be of importance to the Sharia-compliant SACCOs as it would prove the effect the SACCO has had on its SME customers thereby inform better decision making. It is believed that as per the results of the survey, the management team at Sharia-compliant SACCOs would be informed on the various effects that Sharia-compliant SACCOs has had on its SMEs clients in Nairobi City County hence its contributions to Kenya's economic development. For the management, the survey would be of importance especially for the role they have to play or adopt in marketing and SMEs business and areas to be improved.

##### **1.4.3 Policy Makers**

The survey would also shed light to the Kenya Government in formulation of policy and regulations of SMEs. It is believed that as per the results of survey, the Ministry of Finance and Ministry of Public Service, Youth & Gender Affairs will benefit from various policies

developed in guiding diverse distinct group in a bid of promoting business growth across the country.

#### **1.4.4 Youth Led Enterprises**

The survey would be of benefit to the community as well as Youth Enterprise in terms of aiding them comprehend not only the value of the nation economic growth, but also being able to explore the information thus boosting their capacity in making sound and better decisions in regards to borrowing and transacting with banks.

#### **1.5 Scope of the Survey**

The survey was conducted in Nairobi City County. The motive of the survey was to determine the influence of financial services offered by Sharia-compliant SACCOs on monetary recital of SMEs. The survey established the influence of interest-free loans, training services for members, banking services and saving services offered by sharia-compliant SACCOs on recital of SMEs. The researcher sought financial help from family, well-wishers as well as friends in a bid to cover the cost of the survey. The target population is 300 proprietors who are clients of Sharia-compliant SACCOs.

#### **1.6 Limitation of the Survey**

The survey was restricted by the number of participants who were not willing to participate in the exercise by not answering questions in the questionnaires. They were reluctant to provide the information that is needed for the survey for fear of victimization. The

researcher overcame this by assuring the participants against any breach of confidential information since they had not provided their names when filling the questionnaires. Most of the SMEs are owned and managed by semi-illiterate people. Some of the participants were not able to read and write thereby hampering the response needed for the survey. The researcher overcame this by reading and interpreting the questions to them and recording the answers on the questionnaires. Access to the participants in the sample was limited which led to redesigning the survey timeline to ensure data obtained is reliable and valid. This is because the participants were very busy attending to their daily business demands. The researcher paid visit to the participants during their free time especially when they were at home.

### **1.7 Organization of the Survey**

The survey is systematized in sections. Section one concerns about the backdrop putting into perspectives the dependent variable, independent variable and target population. It also introduces the problem statement and highlights the objectives of the survey. It also outlines the questions, significance and scope of the survey. Highlighted in chapter one also is the restrictions survey and the way survey paper is planned. The second section is concerned with the review of literature and diagrammatic review of conceptual frame work. Chapter three avails the study methodology, target populace, sampling design and data collection as well as data analysis. Section four focuses on research findings, discussions and interpretations. Chapter five focuses on the study summary, conclusion and recommendations.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This section introduces an assessment in terms of the basic structure that is influencing SACCO's society associations on financial recital of SMEs. It assesses the existing literature that was done having influence on the intended SACCOs resting on the monetary recital of SMEs. The section also analyses several views that was opined by various scholars in relation to the objective of this survey.

#### **2.2 Theoretical review**

This study is supported by the three following theories:

##### **2.2.1 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. Based on this reality, upcoming enterprises scaled-up positively beating odds unexpectedly (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 emphasizes 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 fear and take out their deposits instantly as well as those who would wish to keep the savings in their accounts considering 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)

### **2.2.2 Credit admission and access theory.**

This supposition 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 evidence, taking the appropriate confidentiality precautions, in order to manage cash and saving accounts. 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 matures. 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).

### **2.2.3 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)

### **2.3 Empirical review**

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

#### **2.3.1 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 per cent to be of the female folks.

The Survey findings revealed that most members of Mwalimu Sacco have been in the Sacco 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 a majority started running businesses when the product was started in the last quarter of year 2009 and concluded that entrepreneurship training is among the initiatives that can be inculcated 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

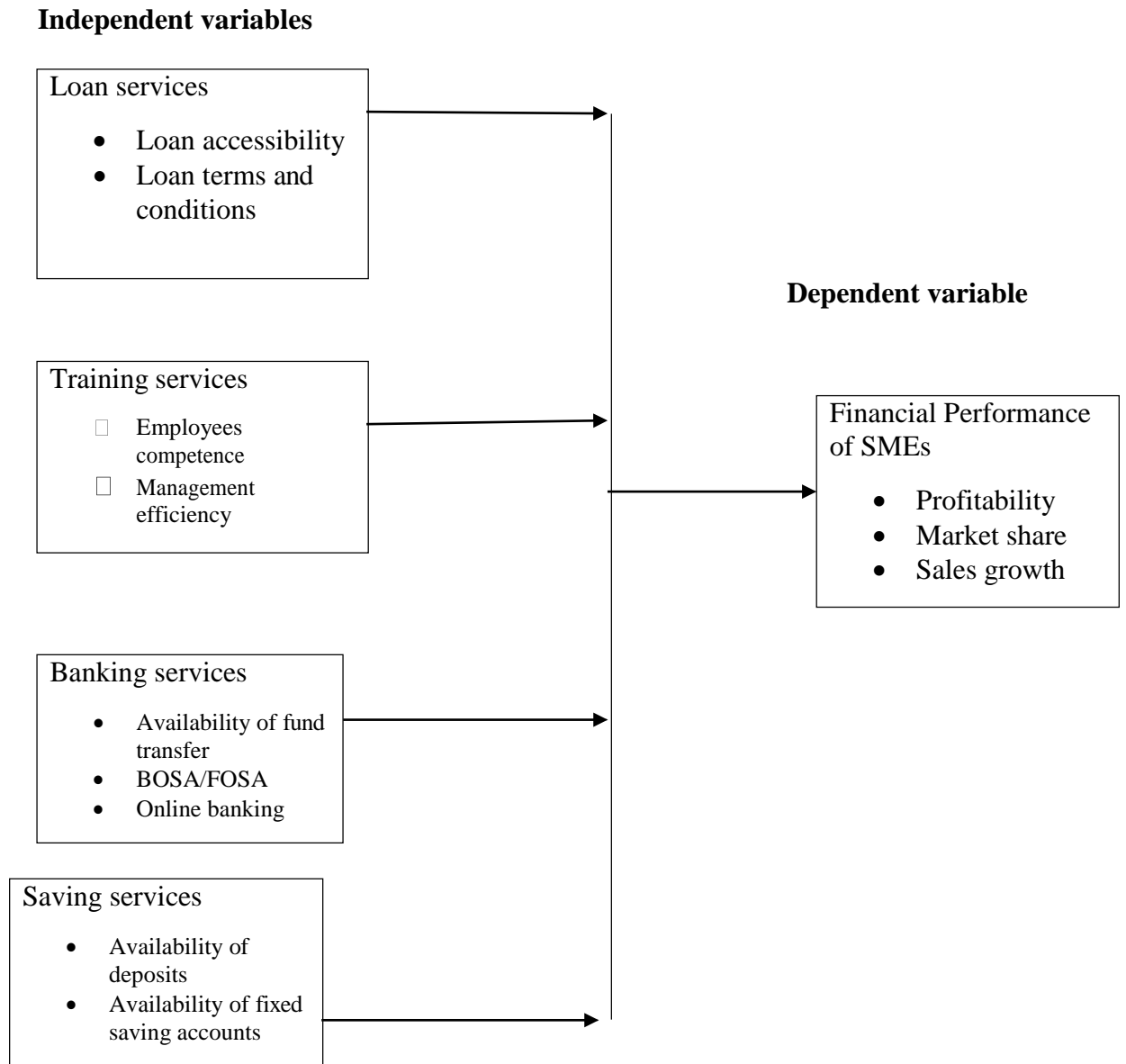
### **2.3.2 Effect of funding source on the growth of SMEs**

JKUAT (2015) performed 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. The outcome of JKUAT (2015) survey was that the utility graph of the SMEs went up when they used loan from SACCOs. They extended their operations to several towns in the region. They recruited more staff to handle the business demands of their SMEs. They streamlined operations embracing the current technological advancements. They opened online systems for their clients and offered them trainings on the platform. However, this survey is skewed since it focused only on the loans provided by SACCOs. This is because SACCOs don't provide loans only to their members. This survey will breach this gap because it has covered all the products provided by sharia-compliant SACCOs.

### **2.3.3 Consequences 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 having impacted microfinance credit outlaying the recital flourishing of SMEs in Nairobi city county, Kenya. The results of similar survey established that SMEs relied heavily on the products offered by SACCOs. Sadhana suggested that several SMEs have expanded their operations as a result of receiving affordable products from SACCOs. 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 shows 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 affordable interest-free credit facilities among other products.

## 2.4 Conceptual framework.



**Figure 2.1: Conceptual Model**

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The tactical approach to get relevant data that was used for the study was laid forth by this chapter. The survey methodology ranges from the design of the study to objective populace and the way sampling will be carried out. In addition the instrument of collecting data and the procedures used is presented in this chapter followed by data analysis and ethical consideration in that order.

#### **3.2 Research Design**

This survey employed an evocative research plan since this plan has shown its immense reliability and important magnitude to bring and drive the point home effectively (kothari, 2008). Vital steps was taken to have the survey explain adequately and do establishment of the exact strategy to have things explained with assurance accuracy (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 up-coming businesses in Nairobi.

#### **3.3 Variables of the research**

The research had sharia-compliant Sacco services as its independent variables while the dependent variable is monetary recital of SMEs. The indicators for the independent variable include loan, banking, training and saving services while the dependent variable has indicators such as profitability, market shares and sales growths of the SMEs.



### 3.4 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 populace of the survey is 300 registered SMEs who are clients of Sharia-compliant SACCOs.

#### 3.5.1 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.

#### 3.5.2 Sample Size

The table below shows how data was sampled. When population is less than one thousand, then the researcher can opt for a higher sample of not less than 30 percent. However, if the researcher settles on population of more than one thousand, then he/she can sample not less than 20 percent Mugenda & Mugenda (2003).

**Table 3.1: sample arrangement matrix**

<b>respondent</b>	<b>target populace</b>	<b>sample size</b>	<b>Percentage of sample</b>
SMEs proprietors	300	90	30%
<b>Total</b>	<b>300</b>	<b>90</b>	<b>30%</b>

### **3.6 Piloting**

Pilot study was established using appropriate ways. The actual data aligned against schemes of generating reliable figures before collecting the actual data and after preparation of the research instruments. A total of six SME proprietors were chosen for determination. Ambiguous feedback was removed using instruments preferred by the researcher to make the data spot, congregate and exclude imprecise materials. Problem arising during the piloting was addressed through reframing of the questionnaires thus helping the researcher to establish how sound the research instruments should be

#### **3.7.1 Validity**

As pointed by Mugenda & Mugenda (2003), validity means accurateness and relevance outfit on survey findings. The instruments were examined for their effectiveness in measuring the correct analysis. The researcher reviewed the wordings and structures of the feedback. The questions in the survey was also checked whether it is in tandem with what is expected from the feedback of proprietors. The researcher also sought the help of supervisor where he was in doubt and asked for clarification. This was done through phone calls or emails where the researcher explains the areas he does not understand well. Clarifications was therefore received by the researcher on these contagious areas.

#### **3.7.2 Reliability**

Reliability is the extent to which a survey tool acquiesces constant outcomes (Mugenda & Mugenda, 2003). In this survey; test-retest method was utilized in order to have dependability examined. The investigator administered questionnaire twice to the participants and there after calculated the score to establish the interior steadiness of the instrument. score of above 0.7 was deemed sufficient.

### **3.8.1 Data Collection Technique**

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). The researcher paid visit in advance to SMEs proprietors so as to seek appointment on when the questionnaires will be administered.

### **3.8.2 Data analysis**

The process of facts scrutiny has been part and parcel of the development of the whole project methods. This is because it has aided to flush out inappropriate misses that was committed throughout the process of data seeking. Information in terms of figures was also translated by way of seamless congruence and accessibility. The data was prepared and coded. The data analyzed was presented in percentages, frequencies, pie charts and bar graphs as per survey objectives. The analysis of qualitative data was also taken into consideration. The data was analyzed by avoiding biasness or subjectivity. Multiple regression model was used to determine the consequence of SACCO services on financial recital of SMEs in Nairobi City County, Kenya. The model is shown as below

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \Sigma$$

Where Y=financial performance of SMEs

$\beta_0$  = Regression constant term

$\beta_1$ -  $\beta_4$ =Coefficient of correlation

$x_1$ =Credit services

$x_2$ =Training services

x3=Banking services

x4=saving services

$\Sigma$ = error term

### **3.9 Logistic consideration**

The investigator took a preliminary letter from the institution giving him/her the opportunity to go-ahead with the survey. While in the field the, investigator observed confidentiality of respondents information by not indicating their names. The researcher ensured that all participants are given free will and space to participate without coercion or favor and contribute voluntarily to the survey. The investigator obeyed to apposite behavior and custom in regards to the rights of the participants. A formal verbal consent from the respondent was asked before responding to questions. Further, the researcher ensured authorities are consulted and permission granted and enough explanations about the survey given to the participants before undertaking the survey.

## CHAPTER FOUR

### RESEARCH FINDINGS AND DISCUSSIONS

#### 4.1 Introduction

The motive of this study was to explore the consequence of sharia-compliant SACCO facilities and monetary achievements of SMEs within Nairobi city county, Kenya. The survey was to be informed by four objectives namely; to settle on the consequences of loan services, training services, banking services and saving services by sharia-compliant SACCOs on monetary recital. The study used both evocative and regression numbers to analyze the data. The presentations laid a road map and were explained well in the upcoming subsequent subsections.

##### 4.1.1 Response rate

The targeted population was 300 SMEs in Nairobi City County. A sample of 90 SMEs was selected which forms 30% of the target population. Therefore, 90 questionnaires were divided among the proprietors. Out of this, 81 questionnaires were dully filled and then submitted. This represents 90% of the sample, sufficient enough for the study. The response rate is tabulated in the below table (Table 4.1.1)

**Table 4.1 Response rate**

<b>Rate</b>	<b>Frequency</b>	<b>Percentage</b>
Response	81	90%
Non-response	9	10%
Total	90	100%

The feedback proportion was appropriate enough for the survey. This is according to Mugenda and Mugenda(2003) who suggested that a response rate of 70% and above is deemed enough for a study.

#### 4.1.2 Reliability test

Crown batch Alpha was used to ascertain the reliability of the study research instruments. For each of the variable, its specific Crown batch Alpha was calculated and determined. The table below (Table 4.1.2) shows the actual findings

**Table 4.2 Reliability test**

Variable	Number of items	Crown bach's Alpha
Credit services	6	0.863
Training services	4	0.829
Banking services	5	0.902
Saving services	5	0.784
Average Crownbach Alpha Coefficient		0.8445

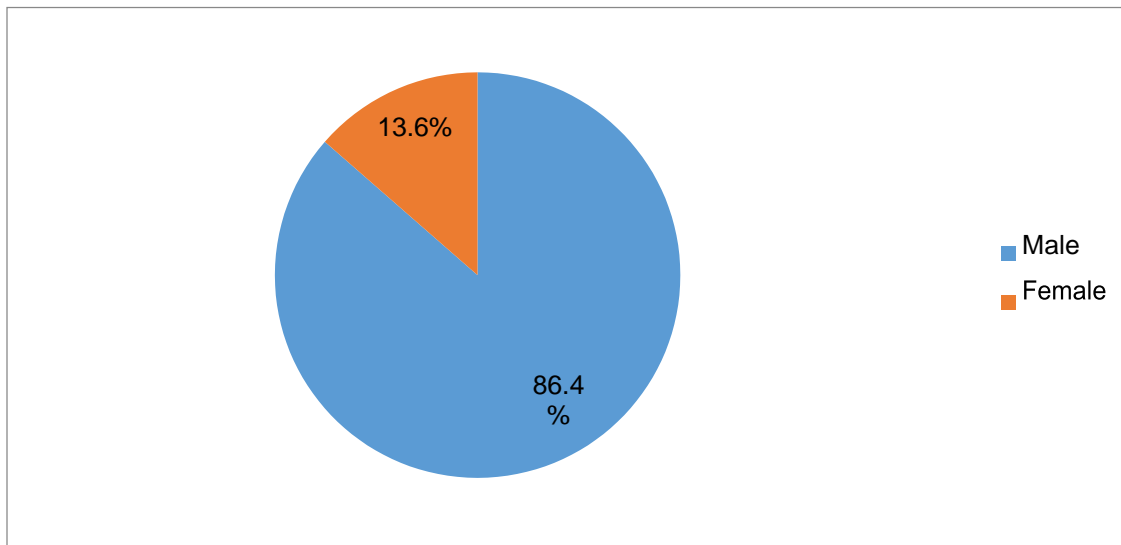
From the above findings, Credit services has a crown bach alpha of 0.863, Training services has a crown Bach alpha of 0.829, Banking services has a crown Bach alpha of 0.902 and saving services has a crown bach alpha of 0.784. The average Crown bach alpha coefficient is 0.8445. This means that the average crown Bach coefficient is more than 0.7 depicting that the research instrument was a reliable one. This is fully supported by Crown Bach (1951) who suggested that a crown bach alpha of 0.7 and above shows that the devices for a study are highly reliable

## 4.2 Demographics

The study determined the demographic background of the respondents in terms of their gender, age bracket, Business type, experience, level of education and source of finance startups. The following analysis summarizes the findings

### 4.2.1 Gender

The respondents comprised of 70 male and 11 female, meaning that 86.4% of the proprietors totaled to male whereas 13.6% were female. This shows that SMEs businesses are mostly dominated by male. It shows that the male genders are bread winners in most of the families in Kenya. The finding is in agreement with Dvoulety (2019) who suggested that male gender dominate SME businesses in Africa. The pie chart below (Pie chart 4.2.1) shows the actual findings of the study.



**Figure 4.1 Gender**

### 4.2.2 Age bracket

The study evaluated the age brackets of the respondents. The table below (Table 4.2.2) reveals the findings of the study.

**Table 4.3: Age bracket**

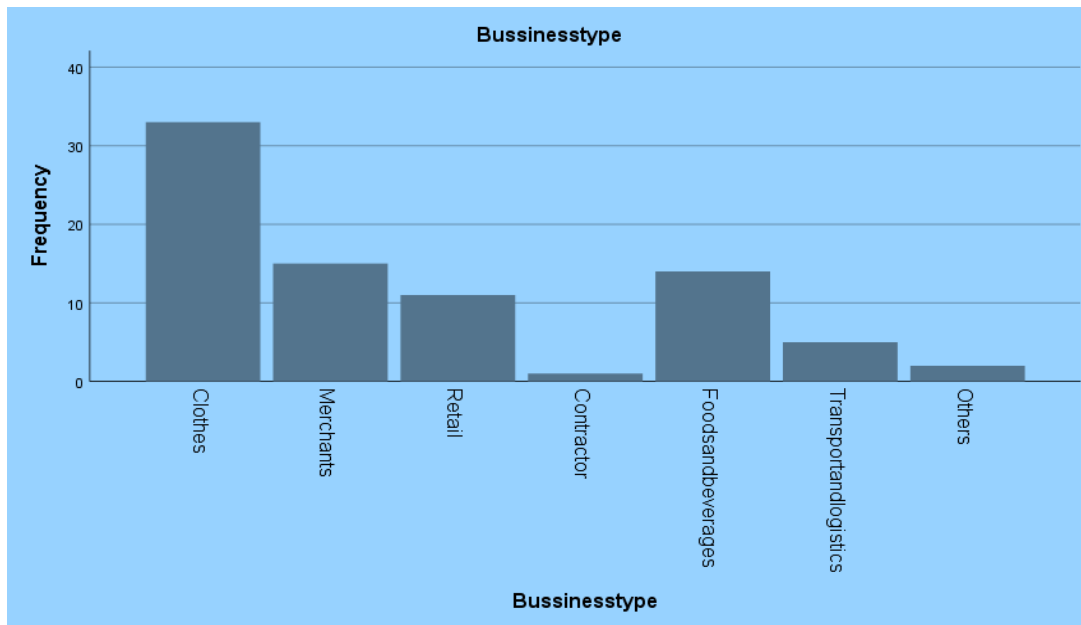
<b>Age range</b>	<b>Frequency</b>	<b>Percent</b>
20-24	23	28.4
25-29	26	32.1
30-34	16	19.8
35 and above	16	19.8
Total	81	100.0

The above findings show the respondents age patterns. 23 respondents are 20 to 24 years old, 26 respondents are between 25 to 29 years old, 16 respondents are 30 to 34 years old while 16 respondents are 35 years and above. This means that 80% of SME owners are below 35 years which indicates that majority of the SME owners are youth. It shows that young people who have business skills apply their knowledge learnt in schools and colleges to open and manage small enterprises. This finding is in tandem with Awogbenle, A. Cyril, and K. Chijioke Iwuamadi (2010). They contend that youth who are unemployed engage in business activities and hence create job opportunities for themselves and others.



### 4.2.3 Business Type

The different types of business SMEs were also determined by the researcher. The following Bar graph (Bar graph 4.2.3) depicts the actual verdicts.



The above findings indicate the various types of businesses SME owners operate. According to the graph 33 respondents deal with cloth industry, 15 respondents are merchants, 11 respondents are retailers, 1 respondent is a contractor, 14 respondents deal with food and beverages industry, 5 respondents work in transport and logistics industries and 2 respondents work in other industries. This findings show that most SME owners who are customers of Sharia-compliant SACCOs engage in clothes businesses. Very few SME owners are contractors and transporters. This show that several youth engage in cloth industry owing to the fact that for the recent past there was availability of cheap and second hand clothes in the market. The verdicts go well as per Mangieri T. (2019) suggesting further

that a lot of second hand clothes from Britain and China are exported to Kenya leading to growth of cloth industry in the Kenyan market.

#### 4.2.4 Number of years of existence

The survey assessed the number of years that the SMEs were existing in Nairobi City County. The table below (Table 4.2.4) summarizes the actual findings of the study.

**Table 4.4: Number of years of existence**

Years of existence	Incidence	Percent
0-1	15	18.5
1-2	24	29.6
2-3	12	14.8
4 years and above	30	37.0
Total	81	100.0

*Source: Field data 2021*

The findings above highlight the period of existence of SMEs who are customers of sharia-compliant SACCOs in Nairobi City County. 15 SMEs have existed for a period of one year and below, 24 SMEs were operating for the last one to two years, 12 SMEs existed for a period of two to three years and those SMEs who existed for four years and above are 30. This shows that most of the SMEs who are customers of sharia-compliant SACCOs were existing for the last 4 years and beyond. This indicates that most of the respondents are seasoned business men and women who understand the terrain and dynamics of businesses because of the experiences of their respective fields and hence gave reliable information.

These findings conquer well with Leković, B. and Maric (2015). They hold that the number of existence of business is part of the measures of successes, performance and durability.

#### **4.2.5 Level of education**

The study determined education level of proprietors who work in the SMEs selected in Nairobi City County. The table below (Table 4.2.5) shows the gathered findings of the survey.

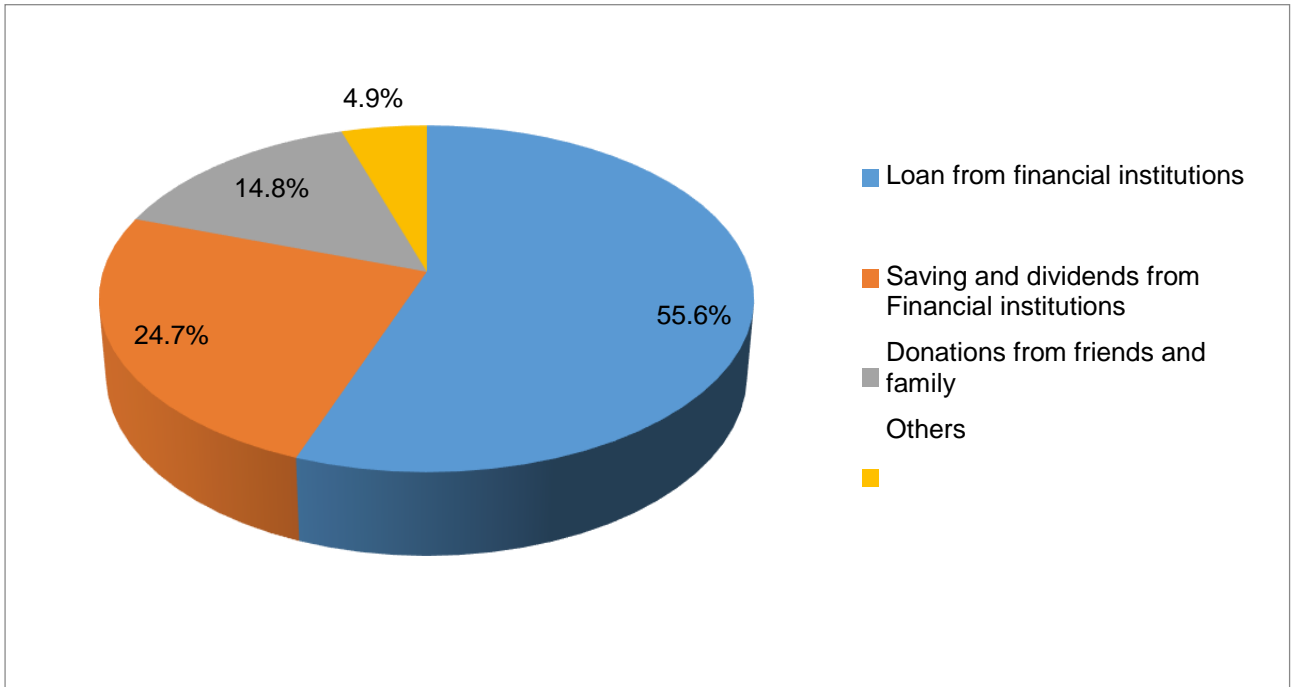
**Table 4.5 Level of education**

<b>Education level</b>	<b>Incidence</b>	<b>Percent</b>
High School	17	21.0
Certificate	32	39.5
Diploma	28	34.6
Graduate	4	4.9
Total	81	100.0

The above findings show the education level of the respondents. 17 respondents have completed high school, 32 respondents have completed certificate, 28 of the respondents are diploma holders while only 4 have graduated. These findings show that most of the respondents are certificate and diploma holders and very few respondents hold degree. This indicates that most youth who have not pursued further studies are successful in small-scale businesses. This study is in agreement with Yusuf, A. D. (2017) who suggested that most youths who were not successful in school were successful in business.

#### 4.2.6 Source of finances

The researcher also assessed where the SMEs generate their finances from so as to establish the financial institutions that provide credit to the SMEs. The pie below (Pie chart 4.2.6) shows the findings of this study.



The verdicts above show the various types of sources through which the SMEs who are customers of sharia-compliant SACCOs obtain their finances from. 55.6% of these SMEs borrow their finances from financial institutions, 24.7% SMEs depend on savings and dividends from financial institutions, 14.8% receive funding through donations from family and friends. This shows that most SMEs who are customers of sharia-compliant SACCOs depend on loans from financial institutions. Since the SMEs are customers of sharia-compliant SACCOs, their performance therefore heavily depend on sharia-

compliant SACCOs. These findings are in congruent with Ondieki et al (2017). They argue that SACCOs play a major role in providing loans to SMEs in Kisii County, Kenya.

### 4.3 Descriptive findings

The respondents also pointed out the list of sharia-compliant SACCOs from which they obtain financial assistance. They indicated Taqwa SACCO, Crescent Takaful SACCO, Sheria SACCO, Marhaba Women SACCO and Gateway SACCO in Nairobi City County, Kenya.

#### 4.3.1 Loan facilities and monetary recital of SMEs

Objective number one of this study was to decide the consequence of loan facilities by sharia-complaint SACCOs on monetary recital of SMEs in Nairobi City County. Proprietors were inquired to enumerate the degree to which they agreed or disagreed with the statement on likert-scale. The below table (Table 4.3.1) shows the findings tabulated.

**Table 4.6 loan services and financial recital of SMEs**

<b>Credit services and financial performance</b>	<b>Mean</b>	<b>Std Deviation</b>
I can easily access overdraft services from my SACCO	4.2099	1.09220
I can easily access loan facilities from my SACCO	3.8519	1.36117
My SACCO has flexible repayment period of loans	4.0617	1.23840
My SACCO offer interest free loans	4.5556	0.77460
My SACCO loan requires less than 24 hours to process	3.0864	1.50165
My SACCO loans require less than 1 week notification	2.5679	1.40480

*Source: Field data 2021*

The table above shows how credit services of sharia-compliant SACCOs have impacted overallly the monetary recital of SMEs in Nairobi City County. The findings show that credit services have greatly enhanced the monetary recital 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 as clearly depicted by the mean of 4.2099, 3.8519, 4.0617 and 4.5556 in that order. Proprietors 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 show that credit services of sharia-compliant SACCOs have relatively improved the monetary recital of SMEs. This finding is in agreement with Saidi, A.A (2019) who proposed that bank loans enhanced the financial performance of SMEs in Nigeria.

#### **4.3.2 Training services and financial performance**

Objective number two also evaluated impact of training facilities by Sharia-compliant SACCOs on monetary recital of SMEs. Far reaching decorum was displayed to make sure proprietors understand the intentions. The respondents were asked to enumerate their level of agreement or disagreement with the statement on likert-scale. The below table, (Table 4.3.2) shows the findings tabulated.

**Table 4.7 Training services and monetary recital**

<b>Training services and financial performance</b>	<b>Mean</b>	<b>Std deviaion</b>
My SACCO trains employee regularly	3.7901	1.28176
My SACCO has professional training personnel	4.0123	1.14558
My SACCO has training package for SME Proprietors	3.6420	1.48584
My SACCO has educational and open days for Members	2.1975	1.28860

*Source: Field data 2021*

The table above shows how training services offered by sharia-compliant SACCOs have impacted monetary recital of SMEs. The findings reveal that training services have greatly value-added the monetary recital 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 as evidenced by a mean of 3.790. Sharia-complaint SACCOs have well trained personnel who provide professional trainings to members to abundant range as evidence by this mean of 4.0123. 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 recital to a fairly good magnitude as evidenced by this mean of 3.6420. However, the SACCOs hold educational and open days for members to a lower extent as evidenced by the low mean of 2.1975. In a nutshell, training services has greatly improved the monetary recital of SMEs in Nairobi City County. This finding is in tandem with Rabie, C., Cant, M.C. and Wiid, J.A (2016). They are on the view that training services for entrepreneurs is a key component for achieving success for SMEs in South Africa.

### 4.3.3 Banking services and financial recital

Objective number three was to decide the consequence of training facilities by Sharia-compliant SACCOs on monetary recital of SMEs in Nairobi City County, Kenya. The proprietors were inquired to enumerate the degree to which they agreed or disagreed with the statement on likert-scale. The below table, (Table 4.3.3) shows the findings tabulated.

**Table 4.8 Banking services and financial performance**

<b>Banking services and financial performance</b>	<b>Mean</b>	<b>Std deviation</b>
My SACCO offer BOSA	3.8765	1.26869
My SACCO offer FOSA	4.0864	1.14234
My SACCO has ATM services	3.0864	1.65980
My SACCO has SMEs department	3.3951	1.51393
My SACCO has online banking platform	4.1481	1.11928

*Source: Field data 2021*

The table above shows how banking services offered by sharia-compliant SACCOs have impacted monetary recital of SMEs. The findings reveal that banking facilities have greatly improved monetary recital 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 high magnitude as evidenced by the mean of 3.8765 and 4.0864 in that order. The SACCOs also provide ATM services and have SMEs department depicted by the mean of 3.0864 and 3.3951 which is fairly good extent. In addition, the SACCOs offer online banking services to a high magnitude as explained by a mean of 4.1481. In general, banking services of sharia-compliant SACCOs have greatly



improved the monetary recital of SMEs. This study agrees with Formisano, Vincenzo, et al (2020) who hold that accessible banking services maintains constant cash flows and helps SMEs honor their financial obligation thereby cushioning them from financial crisis.

#### 4.3.4 Saving services and monetary recital

Objective number four is to establish the effect of saving services by Sharia-compliant SACCOs on monetary recital of SMEs. The respondents were asked to specify their level of agreement or disagreement with the statement on likert-scale. The below table, (Table 4.3.4) shows the findings tabulated.

**Table 4.9 Saving services and financial recital**

<b>4.3.4 Saving services and financial performance</b>	<b>Mean</b>	<b>Std deviation</b>
My SACCO has only current accounts	1.9259	1.32077
My SACCO has deposit and saving accounts	3.9506	1.10568
My SACCO has fixed accounts	4.0370	1.05409
My account does not require minimum deposit for Operation	3.7531	1.29934
My SACCO pays dividends to its members	2.6049	1.31033

*Source: Field data 2021*

The table above shows how saving services of sharia-compliant SACCOs have impacted on monetary recital of SMEs. The findings reveal that saving facilities have greatly enriched the monetary recital of SMEs who are customers of sharia-compliant SACCOs in Nairobi City County. Sharia-compliant SACCOs do not maintain current account only as shown by the low mean of 1.9259 but

they do have several other accounts which include deposit, saving and fixed accounts as clearly shown by the higher means of 3.9506 and 4.0370 respectively. The accounts of the members do not require minimum deposit for operation as shown by the mean of 3.753. Sharia-compliant SACCOs pay dividend to members on average extent as shown by the mean of 2.6049. This findings show that saving services has enhanced, to a larger extent, the financial performance of SMEs who are customers of sharia-compliant SACCOs. The verdicts show that the SACCOs played a major role in encouraging SMEs to do more savings. Sharia-compliant SACCOs begged borrowings on loans. The more the SMEs save the more money they will be illegible to borrow. This has enticed SMEs to adopt the culture of savings. Verdicts of the survey conquer well with omondi, r. i., & Jagongo, A. (2018). They suggested that microfinance facilities such as savings have greatly influenced positively the monetary recital of SMEs in Kisumu County.

#### **4.3.5 Monetary recital of SMEs**

The dependent variable of the survey was monetary recital of SMEs in Nairobi City County. Proprietors were inquired to indicate the degree to which they agreed or disagreed on narrative concerning the monetary recital of SMEs on likert-scales. The below table, (Table 4.3.5) shows the actual findings tabulated in means and standard deviations.

**Table 4.10 Monetary recital of SMEs**

<b>Financial performance indicators</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
Our sales have increased	81	4.87654	.639975
Our net profit has improved	81	4.2593	.90523
We received more regular customers	81	4.4321	.75727
Our cash flow has improved	81	3.9753	.15615

According to the findings, financial performances of SMEs in Nairobi City County have greatly improved as a result of the services provided by sharia-compliant SACCOs. The findings reveal that the sales, net profit, number of customers and cash flow have to a great extent increased as shown by the means of 4.87654, 4.2593, 4.4321, 3.9753 respectively. This clearly depicts that the overall monetary recital of SMEs have significantly improved as a result of the services provided by sharia- complaint SACCOs.

#### **4.4 Regression analysis**

Regression analysis was used to establish the relationships between SACCO facilities and monetary recital of SMEs. The findings below show the model summary, ANOVA and coefficient of regression

##### **4.4.1 Model Summary**

The model summary indicates the coefficient of determination (R<sup>2</sup>) and coefficient of adjusted determination (adjusted R) as shown in table (4.4.1) below

**Table 4.11 Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.79 <sup>a</sup>	.62	.60	.40

a. Predictors: (Constant), Credit services, Training services, Banking services, Saving services

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.

#### 4.4.2 Anova

An ANOVA analysis was carried out at significance level of 95%. The table below (Table 4.4.2) shows the findings of  $F_{\text{calculated}}$  and  $F_{\text{critical}}$ .

**Table 4.12 Anovaa**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3.364	4	.841	3.185	.018 <sup>b</sup>
	Residual	20.068	76	.264		
	Total	23.432	80			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Credit services, Training services, Banking services, Saving services.

According to the above table,  $F_{\text{calculated}}$  is 3.185 while  $F_{\text{critical}}$  is 1.530. This means that  $F_{\text{calculated}}$  is greater than  $F_{\text{critical}}$  ( $3.185 > 1.530$ ). 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.

#### 4.4.3 Coefficient of regression

Coefficient of regression analysis was run to establish the influence of the variables on monetary recital of SMEs. The below table, (Table 4.4.3) shows the actual findings.

**Table 4.13 : Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	4.76	.75		1.726	.008
Credit services	.84	.16	.253	1.101	.004
Training services	.65	.35	.276	1.161	.009
Banking services	.87	.13	.261	.979	.001
Saving services	.56	.44	.045	.224	.003

a. Dependent Variable: Financial performance

According to the above table, the resultant regression equation is

$$Y=4.76+0.84X1+0.65X2+0.87X3+0.56X4$$

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 monetary recital of SMEs is 4.76, holding all other factors constant. A unit increase in credit services of sharia-compliant SACCOs will increase the monetary recital of SMEs by 0.84, holding all other factors constant. A unit increase in training services of sharia-compliant SACCOs will increase the monetary recital of SMEs by 0.65, holding other factors constant. A unit increase in banking services of sharia-compliant SACCOs will increase the monetary recital of SMEs by 0.87, holding other factors constant. A unit increase in saving services of sharia-compliant SACCOs will increase the monetary recital 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 monetary recital of SMEs in Nairobi City County.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

The study has established the relationship between sharia-compliant SACCO facilities and monetary recital of SMEs. This section summarizes findings discussed in section four. It offers conclusions and commendations to interpretations and findings of chapter four.

#### **5.2 Summary of the findings**

The aim of this study was to determine the consequence of sharia-compliant SACCO facilities on financial recital of SMEs in Nairobi City County. The study analyzed four purposes and these were: the effect of loan facilities, training facilities, banking facilities and saving facilities of sharia-compliant SACCOs on monetary recital of SMEs. The coefficient correlation of the study (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 variations of dependent variable can be clarified by the independent variables.

##### **5.2.1 Credit services and monetary recital of SMEs**

The study found out that credit services by sharia-complaint SACCOs have strongly impacted on the financial performance of SMEs in Nairobi City County. The respondents established that the credit services have improved the economic growth of their SMEs. These services include overdraft, loan facilities, flexible repayment period and the liberty to borrow loans without interest. The respondents believe that the SACCOs offer

emergency loan facilities such as overdraft where members can quickly request and access money through their ATM cards. If the members require an extension of loan repayment period, they will only notify the SACCO manager. The manager approves the extension once he/she is satisfied with the reasons given. The respondents hold that this arrangement has helped the SMEs maintain a constant stream of cash flows in which they can settle their financial obligations easily. Therefore to a great extent, credit services have improved the monetary recital of SMEs.

### **5.2.2 Training services and monetary recital of SMEs**

The study established that saving services by sharia-compliant SACCOs have robustly improved the monetary recital of SMEs. The respondents suggested that the SACCOs provide regular training for their members. The members were given professional trainings so as to increase their capacity, knowledge and skills. The SMEs were encouraged to maintain good business plans which formed part of the training packages provided by the SACCOs. The SACCOs held educational and open days for the members where they were tasked to show case their achievements to help learn among themselves the best business practices. The respondents held that this has greatly improved their business skills and raised their competitive advantage. As a result, the SMEs have significantly embraced the training services and this indicates that the training services have really enhanced the monetary recital of SMEs.

### **5.2.3 Banking services and monetary recital of SMEs**

The study revealed that banking services by sharia-compliant SACCOs have positively enhanced the monetary recital of SMEs. The SACCOs provide both BOSA (Back Office Service Activities) and FOSA (Front Office Service



Activities). The respondents suggest that members can access both of these services conveniently. The respondents also said that Sharia-complaint SACCOs provide a 24 hour ATM services to their members which enables them to withdraw money whenever they deem fit. This has really helped the members to access cash in case of any emergency. The provision of online banking by sharia-complaint SACCOs have also been embraced by the SMEs because it enabled them to withdraw money from their accounts using their mobile phones. All the sharia-complaint SACCOs have SME departments specifically designed for SMEs only. This has helped them to get banking services quickly and conveniently. In nutshell, banking services have strongly improved the monetary recital of SMEs.

#### **5.2.4 Saving services and monetary recital of SMEs**

The survey displayed saving services by sharia-compliant SACCOs have positively improved the monetary recital of SMEs. The respondents suggested the SACCOs maintain fixed deposit accounts in which they encourage their members to save a small portion of their profits to the fixed accounts monthly for a period of one year and above. The SACCOs then allow their members to borrow thrice their savings without interest. The SME owners agreed that sharia-compliant SACCOs do not require them to maintain minimum deposit for their accounts to be operational indicating that the members can open an account with the SACCOs with a small amount of money. The respondents also revealed that they can buy shares from the SACCOs and hence get dividend mostly annually depending on the amount of their shares. The respondents held that the money they save in fixed accounts and the dividends they receive at the end of every financial year helped them to expand their businesses. This shows that

to a great extent saving services of sharia-compliant SACCOs have significantly improved the monetary recital of SMEs in Nairobi City County.

### **5.3 Conclusions**

The survey has concluded 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 monetary recital of SMEs.

### **5.4 Recommendations**

The study suggests the following recommendations based on policy and practice.

#### **5.4.1 Recommendation for policy**

The study commends the following for policy recommendations.

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 illegible to acquire loans from financial institutions such as SACCOs. The government should embrace Islamic mode of financing tailored towards encouraging Muslims 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. The government should hold annual events and conferences where the spirit of entrepreneurship is communicated to the public and best performing SMEs are awarded.

#### **5.4.2 Recommendation for practice**

The study commends the following recommendations for practice.

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 whereby SME owners are educated on financial literacy and prudent use of financial resources.

### **5.5 Suggestions for further studies**

The coefficient of adjusted determination (adjusted R) is 60%. Therefore, the residual value of 40% standard error can be explained by other factors beyond this study, hence further studies should be done to establish the effect of other microfinance services on the performance of SMEs. Further studies should be done in other cities like Nakuru, Mombasa and Kisumu where there are many Islamic SACCOs and find out if the results are the same. Since there are other SACCOs that is formed by professional in various field such as teaching e.g Mwalimu SACCO, a similar studies should be done to see if there are also empowering young SMEs.

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## APPENDICES

### Appendix i : Introduction Letter to the Respondent

Adow Mohamed Sheikh

D53/27634/2018

Kenyatta University,

P.O Box 43844-00100,

Nairobi.

E-Mail: aliweyt@gmail.com

Mobile No: + 254728633446

Date: February, 2021

Dear Respondent,

**Dear Sir/Madam,**

#### **REF: REQUEST TO CARRY OUT A RESEARCH IN YOUR SACCO**

My name is **Adow Mohamed Sheikh**, Kenyatta university postgraduate student, doing masters in business administration. I am performing a research on financial services of Sharia-Compliant SACCOs and Financial Performance of SMEs *in Nairobi City County*.

Your Sacco has been chosen to take part in this survey. I will give questionnaires to some of your employees. The confidentiality of the participants will be taken care of. Any assistance given to me is highly appreciated.

Thank you.

Yours faithfully,

Adow Mohamed Sheikh.



## APPENDIX ii : Questionnaire for the SME Proprietors

### Part A: Demographic information

Please specify response by ticking (√) in the appropriate box.

1. What is your gender?
  - (a) Male ( )
  - (b) Female ( )
2. What is your age Bracket?
  - (a) 20-24years ( )
  - (b) 25-29 years ( )
  - (c) 30-34 years ( )
  - (d) 35 years and above ( )
3. What is your business type?
  - (a) Clothes ( )
  - (b) Merchants ( )
    - c) Retail ( )
    - d) Contractor ( )
    - e) Food and Beverages ( )
    - e) Transport and Logistics ( )
    - f) Others ( )
4. How many years have you been working in this industry?
  - (a) 0-1years ( )
  - (b) 1-2 years ( )
  - (c) 2-3 years ( )
  - (d) 4 years or above ( )

5. Which level are you in terms of education?

- (a) High School ( )
- (b) Certificate ( )
- (c) Diploma ( )
- (d) Graduate ( )

6. What is the source of finance of your startup?

- (a) Loan from Financial institutions ( )
- (b) Savings and Dividends from Financial institutions ( )
- (c) Donations from friends and family ( )
- (d) Others ( )

**PARTB: CREDIT SERVICES**

The following statements relates to the effects of Credit Services of Sharia-Compliant SACCOs on recital of SMEs in Nairobi City County. Kindly specify to what level you are agreeing to each narrative. Disagree it powerfully SD, completely disagree with it D, fairly and neutrally in agreement with it N, completely agree with it A, and powerfully agree with it SA. Mark simply single answer in every narrative.

	<b>CREDIT SERVICES</b>	<b>S.D</b>	<b>D</b>	<b>N</b>	<b>S.A</b>	<b>A</b>
7	I can easily access overdraft services from my SACCO					
8	I can easily access loan facilities from my SACCO					
9	My SACCO has flexible repayment of loans					
10	My SACCO has offer interest free loan.					
11.	My SACCO loans require less than 24 hours to process					
12	My SACCO loans requires less than I week notification					

### **PART C: TRAINING SERVICES**

The following statements relates to the effects of training services of Sharia-Compliant SACCOs on recital of SMEs in Nairobi City County. Kindly specify to what level you are agreeing to each narrative. Disagree it powerfully SD, completely disagree with it D, fairly and neutrally in agreement with it N, completely agree with it A, and powerfully agree with it SA. Mark simply single answer in every narrative.

	<b>CREDIT SERVICES</b>	<b>S.D</b>	<b>D</b>	<b>N</b>	<b>S.A</b>	<b>A</b>
13	My SACCO trains employees regularly					
14	My SACCO has Professional Training					
15	My SACCO has training for SMEs proprietors					
16	My SACCO has Education and open day for members					

### **PART D: BANKING SERVICES**

The following statements relates to the effects of Banking Services of Sharia-Compliant SACCOs on recital of SMEs in Nairobi City County. Kindly specify to what level you are agreeing to each narrative. Disagree it powerfully SD, completely disagree with it D, fairly and neutrally in agreement with it N, completely agree with it A, and powerfully agree with it SA. Mark simply single answer in every narrative.

	<b>BANKING SERVICES</b>	<b>S.D</b>	<b>D</b>	<b>N</b>	<b>S.A</b>	<b>A</b>
17	My SACCO offer BOSA					
18	My SACCO offer FOSA					
19	My SACCO has ATM services					
20	My SACCO has SMEs department					
21	My SACCO has online banking platform					

**PART E: SAVING SERVICES**

The following statements relates to the effects of Saving Services of Sharia-Compliant SACCOs on recital of SMEs in Nairobi City County. Kindly specify to what level you are agreeing to each narrative. Disagree it powerfully SD, completely disagree with it D, fairly and neutrally in agreement with it N, completely agree with it A, and powerfully agree with it SA. Mark simply single answer in every narrative.

	<b>SAVING SERVICES</b>	<b>S.D</b>	<b>D</b>	<b>N</b>	<b>S.A</b>	<b>A</b>
22	My SACCO has only current accounts					
23	My SACCO has deposit and saving account					
24	My SACCO has fixed deposit and saving accounts					
25	My SACCO do not require minimum deposit for operation of accounts					
26	My SACCO pays dividends to Members					

**PART F: FINANCIAL PERFORMANCE**

The following statements relates to the monetary recital of SMEs in Nairobi City County. Kindly specify to what level you are agreeing to each narrative. Disagree it powerfully SD, completely disagree with it D, fairly and neutrally in agreement with it N, completely agree with it A, and powerfully agree with it SA. Mark simply single answer in every narrative.

	<b>FINANCIAL PERFORMANCE</b>	<b>S.D</b>	<b>D</b>	<b>N</b>	<b>S.A</b>	<b>A</b>
27	Our sales have increased					
28	Our net profit has improved					
29	We received more regular customers					
30	Our cash flow has improved					

### Appendix iii : Proposal Approval



KENYATTA UNIVERSITY  
GRADUATE SCHOOL

E-mail: [dean-graduate@ku.ac.ke](mailto:dean-graduate@ku.ac.ke)

Website: [www.ku.ac.ke](http://www.ku.ac.ke)

P.O. Box 43844, 00100  
NAIROBI, KENYA  
Tel. 810901 Ext. 4150

Internal Memo

FROM: Dean, Graduate School

DATE: 5<sup>th</sup> November, 2021

TO: Adow Mohamed Sheikh  
C/o Accounting and Finance Dept.

REF: D53/27634/2018

SUBJECT: APPROVAL OF RESEARCH PROPOSAL

We acknowledge receipt of your revised Research Proposal as per our recommendations raised by the Graduate School Board of 27<sup>th</sup> October, 2021 entitled "Sharia Compliant SACCO Services and Financial Performance of Small and Medium-Sized Enterprises in Nairobi City County, Kenya."

You may now proceed with your Data Collection, Subject to Clearance with the Director General, National Commission for Science, Technology and Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School Completed Supervision Tracking and Progress Report Forms per semester. The forms are available at the university's website under Graduate School webpage downloads.

Thank you.

A handwritten signature in blue ink, appearing to read 'Harriet Isaboke'.

HARRIET ISABOKE  
FOR: DEAN, GRADUATE SCHOOL

C.c. Chairman, Department of Accounting and Finance

Supervisors:

1. Dr. Ambrose Jagongo  
C/o Department of Accounting and Finance  
Kenyatta University

HI/Inn

## Appendix iv: Authorization Letter



KENYATTA UNIVERSITY  
GRADUATE SCHOOL

E-mail: [dean-graduate@ku.ac.ke](mailto:dean-graduate@ku.ac.ke)

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P.O. Box 43844, 00100  
NAIROBI, KENYA  
Tel. 8710901 Ext. 57530

Our Ref: D53/27634/2018

DATE: 5<sup>th</sup> November, 2021

Director General,  
National Commission for Science, Technology  
and Innovation  
P.O. Box 30623-00100  
**NAIROBI**

Dear Sir/Madam,


**RE: RESEARCH AUTHORIZATION FOR ADOW MOHAMED SHEIKH – REG. NO. D53/27634/2018.**

I write to introduce Adow Mohamed Sheikh who is a Postgraduate Student of this University. The student is registered for MBA degree programme in the Department of Accounting and Finance.

Adow intends to conduct research for a MBA Project Proposal entitled, “Sharia Compliant SACCO Services and Financial Performance of Small and Medium-Sized Enterprises in Nairobi City County, Kenya”.

Any assistance given will be highly appreciated.

Yours faithfully,

  
**PROF. ELISHIBA KIMANI**  
**DEAN, GRADUATE SCHOOL**

HI/Inn

Appendix v : Nacosti Approval

REPUBLIC OF KENYA

**Ref No: 671906**

**RESEARCH LICENSE**



**License No: NACOSTIP/21/14505**

**Applicant Identification Number**

**Date of Issue: 24/November/2021**

**Director General**

**NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION**

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