

**THE ROLE OF ISLAMIC BANKING IN THE GROWTH OF SMALL
SCALE AND MICRO-ENTERPRISES IN KENYA.
(CASE STUDY OF THE FIRST COMMUNITY BANK)**

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ABSTRACT

Small business and entrepreneurship has emerged as an important area of research over the past 40 years. Much of this development has been achieved by drawing on and adapting the theoretical frameworks of disciplines from outside. However, such diversity of disciplinary foundation does not necessarily result in a diversity of underlying meta-theoretical assumptions within an area. Other areas of the social sciences have benefited from the consideration of the meta-theoretical foundations of their research and as a consequence they have been able to extend their research into new agendas. The Objectives of the study were: to determine how Islamic banking system works in Kenya; to establish the impact of interest-free loans on the growth of small enterprises; to find out the various services offered by the Islamic banks to the small business enterprises and to establish whether the services offered to the SMEs were sufficient for the businesses to grow. A descriptive research design was adopted, population of 100 people working at the first community bank and those operating small businesses within the Eastleigh estate selected and a stratified random sampling method employed to select a 50% sample from the population which was 50 respondents. Data was collected using Questionnaires and analyzed through quantitative methods. The main findings of the study were; that the Islamic profit sharing concept helps to foster economic development by encouraging equal income distribution and which results in greater benefits for social justice and long term growth; The profit-loss sharing scheme improves capital allocation efficiency as a return on capital depends on productivity and the allocation of funds is based on the success of the project; The profit sharing scheme encourages investment because investment depositors receive a share in the bank's profits. This increase in investors will implicitly result in the increase in employment; The Islamic financial system is more stable than the conventional banking system due to the elimination of debt financing. It also reduces inflation in the economy as the supply of money is not permitted to go above the supply of goods. Based on the findings the following recommendations were given; that the banks' management should take greater initiative in providing their employees with sufficient knowledge of and exposure to rules of the Shariah and the principles governing Islamic banking in particular. This is to ensure that the employees are well equipped with knowledge to handle their customers and to perform their duties.